INVESTCORP

Business Review H1 FY13

For the period July 1, 2012 – December 31, 2012

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Note: figures in this document may not reconcile due to rounding

EXECUTIVE SUMMARY

Market Environment

- In 2012, an already weakened global economy suffered a series of new challenges creating even greater uncertainty and making the prediction of future growth and prospects more difficult. The Eurozone crisis gained momentum during the first six months of calendar 2012 with economic growth slowing as a result of deteriorating sentiment across the globe. Analysts expect that this pressure in the Eurozone will continue to dampen economic activity into 2013, compounded with the on-going uncertainty in the US. Whilst the specific issues related to the much mooted US 'fiscal cliff' have abated for now they have not disappeared and only a modest level of growth is expected in 2013. However, as a result of action taken by the European Central Bank, together with the US Federal Reserve's monetary easing measures, there has been a reduction in tail-risk and some improvement in market sentiment towards the latter half of 2012.

- Europe experienced negative GDP growth of about 0.4% for calendar 2012 and growth is projected to improve marginally but remain negative in calendar 2013. In the United States, real GDP is expected to grow by approximately 2.3% for 2012 and 2.0% in 2013.

- From a global perspective, the outlook is for a slow uplift in output but with major downside risks. Economic activity is expected to pick-up slightly across both advanced and emerging economies in 2013 but that is predicated on two important assumptions. These are that European policymakers will take steps to stabilize and gradually bring down sovereign debt spreads and that the 'detente' agreed by US policymakers to avoid the 'fiscal cliff' at the end of 2012 will hold, thus avoiding significant automatic spending cuts. In summary, subject to these assumptions, by the end of 2013, policy initiatives are likely to have taken effect to control 'debt contagion' and to help drive global growth.

- In the Gulf Cooperation Council (GCC) region, growth remains robust, supported by expansionary fiscal policies and accommodative monetary conditions. In calendar 2012, overall real GDP growth for the GCC reached 5.5%, albeit with a forecasted slowdown to 3.7% growth in calendar 2013 due to the continuing global uncertainties. Nevertheless, it is still expected to remain one of the world's best performing regions.

- Oil production, which accounts for 75% of Gulf exports, has risen by over 10% in recent years and has been supported by non-hydrocarbon growth. Whilst external debt has increased in some countries since the 2008-09 global financial crisis (notably Saudi Arabia), it is dwarfed by the size of foreign exchange reserves and assets held by regional Sovereign Wealth Funds (SWFs). The price of oil is expected to remain above $100 per barrel in 2012-13 and in excess of current fiscal break-even levels for the region.

- The macro-economic dynamics of the region will continue to underpin growth and the accumulation of investment wealth. The number of Gulf HNWIs has increased by 26% since 2006 with strong growth expected in the years ahead. The GCC is well positioned to remain 'protected' against further deterioration in the global economy during 2013. Its strong position is further underpinned by significant government spending in recent years with adequate fiscal budgets available to offset any dramatic fall in oil prices.

Business Environment

- The environment for our **corporate investment – North America & Europe** business has been mixed. In North America, a modest but steady economic recovery and favorable credit markets have allowed private equity firms to return healthy amounts of capital to their investors. Companies have continued to grow and the climate for new investments remains positive. The inventory of private equity backed companies in the US also continues to grow, albeit at a slower pace than in previous years. Consequently, the typical three to five year holding period for a portfolio company is slowly increasing. In Europe, there is now greater clarity in the outlook for calendar year 2013 than was the case at this time last year. However, fundamental issues affecting the wider European market, which are driven by a dearth of bank lending as well as political and economic uncertainty, may take a few years to work through. Leverage levels are still substantially lower than pre-crisis thresholds and banks are reasserting their influence with financial sponsors and not always extending maturities on existing transactions, given increased regulatory and capital pressures. Financial deleveraging, especially in existing European portfolios, is expected to continue and may become increasingly important if growth slows further. Absolute return expectations continue to be lower, in line with similarly lower return expectations from public equities and bonds, compared to historical averages. The long term outperformance of alternatives such as private equity is likely to attract investors given its ability to deliver superior, non-correlated returns over the economic cycle. Even in the current economic climate, there is a broad swathe of middle-market companies in the US and Europe with strong market niches and thus the potential to out-perform the broader economy. According to Preqin, investors continue to see the small to mid-market buyout sector as offering the best investment opportunities.

- Our **corporate investment – technology** business has continued to see strong M&A activity, driven by strategic buyers with substantial cash resources seeking to expand into new markets or acquire new technologies. US buyers have been dominant and global IT spending is projected to increase in 2013. Corporate spending on IT remains buoyant, with efficiency and regulation as powerful growth drivers, and the need for growth is fuelling technology M&A activity. The technology IPO market has been active as investors sift through the elevated backlog from 2011. Business-to-Business companies have generally outperformed the Business-to-Consumer companies. Sub-sectors in which investment activity may be concentrated include mobility, social media and cloud computing.

- For **corporate investment – MENA** the region continues to prove its resilience against a more challenging global economic backdrop and is expected to continue to outperform developed markets in terms of GDP growth in 2012 and 2013. Government stimulus packages, infrastructure projects and regulatory reforms embarked upon by various GCC governments continue to attract the interest of private equity investors in defensive, growing and demographically-linked sectors such as transportation, consumer retail, food and beverage, education, healthcare and oil and gas. However, in the first half of FY13, no sizable private equity exits were concluded. Lack of liquidity on regional stock exchanges, coupled with pressures from investors to realize exits, is expected to seed the market for secondary transactions in the region. A strong IPO pipeline in Saudi Arabia and the United Arab Emirates is expected to result in further listings. Private equity companies' ability to secure acquisition financing continues to improve with abundant domestic liquidity while higher energy prices and increased hydrocarbon production drive credit growth. In summary, despite the negative impact of a generally weak global economy and geopolitical tensions within the region, the GCC continues to benefit from robust oil revenues and high government expenditures in key sectors and continued strong demographic trends. Deal flow has picked up somewhat and there is a favorable environment for well capitalized investment firms to continue to find attractive investment opportunities.

- Overall the environment for our **real estate investment** business has continued its slow recovery during the second half of calendar 2012. Transaction volume was strong during the half year, attributable to the general perception following the US elections that the capital gains tax rate would increase. The lightest volume totals were seen in the hotel sector while the office property sector witnessed rising interest. The "for rent" multi-family sector continued to garner strong investor interest. As always, the pace of recovery in the office sector is linked to employment growth. The retail sector is improving as the economy generally strengthens. The low interest rate environment in the US has helped to keep capitalization rates relatively low and those rates remained stable during the first half of the fiscal year. The commercial real estate financing markets continue to provide attractive opportunities for investment with approximately $2 trillion in commercial and multi-family real estate loans expected to mature through calendar 2018. There continues to be a lack of available capital to refinance these loans as they come due. This anomaly has created an environment where investors who are capable of providing this type of financing are being well rewarded by historical standards and are positioned to receive high current income returns while enjoying a more senior position in the capitalization with respect to the equity investors.

- The **hedge funds** industry faced a tough environment in the first half of calendar 2012 but there was some improvement in the second half. The European Central Bank provided three year liquidity to banks through two tranches of Long Term Refinancing Operations and stated that it was prepared to buy unlimited amounts of the sovereign debt of troubled economies in order to lower borrowing costs. The US Federal Reserve announced a commitment to open-ended quantitative easing and increased the level of monthly bond-buying to $85 billion. It also provided further guidance on maintaining near-zero short-term interest rates until at least mid-2015. Correlation levels amongst asset classes have gradually moved lower and security selection has started to work again. The reduction of tail risk and lower asset correlation has motivated hedge fund managers to take on more risk, which in turn has helped to deliver an improvement in performance. This improvement is expected to continue in the areas of seeding and emerging managers. Total hedge fund industry assets under management at September 2012 were $2.2 trillion, in excess of the 2007 peak of $2.0 trillion. Total hedge fund assets are forecast to rise to $3.5 trillion over the next several years.

Financial Performance

- Gross operating income increased by 65% in H1 FY13 to $152.9 million (H1 FY12: $92.5 million). Fee income increased 80% from the comparable period last year due to a significant increase in acquisition, realization and placement activity. Asset-based income declined by $5.2 million, largely reflecting a continuation of the muted return environment for legacy European and Real Estate investments, offset to some extent by the on-going recovery in hedge funds from the very negative returns experienced in H1 FY12.

- Total fee income in H1 FY13 increased to $147.6 million compared to $82.0 million in H1 FY12. Deal fees more than tripled with strong increases in acquisition, placement and realization fees leading to an increase in activity fees from $29.7 million to $86.9 million. Performance fees also increased significantly, to $15.6 million, driven by the strong underlying performance of some of the more recent corporate investments. The strong performance in deal fees was offset slightly by a $6.5 million (12%) decline in AUM fees to $45.3 million, primarily due to the reduction in management fees as a result of some closed-end funds reaching the end of their commitment period.

- Gross asset-based income halved to $5.3 million (H1 FY12: $10.5 million), mainly due to a flat performance from corporate investments and a further decline in the fair value of legacy (pre-2009) real estate investments. This decline was almost entirely offset by the continuing turnaround in the performance of hedge funds, which had suffered from adverse market conditions affecting the industry in H1 FY12.

- Operating expenses increased by 19% from $64.0 million in H1 FY12 to $76.4 million in H1 FY13, primarily due to increased staff compensation in line with improved profitability compared to last year.

- At December 31, 2012, total assets were $2.7 billion, unchanged from the previous fiscal year end. Total liabilities, at $1.7 billion, also remained unchanged from June 30, 2012. Financial leverage declined to 1.3x and co-investments as a multiple of long term capital (comprising total equity and very long term debt) fell to 1.0x.

- Total liquidity remained in excess of $1.0 billion, which covers the total amount of debt repayments that fall due over the next five years. Investcorp successfully completed its first public dollar-denominated debt offering, a $250 million bond issue, in October 2012. The bond issue adds further flexibility and duration to the overall liquidity and funding profile and provides a robust platform for the pursuit of our business objectives over the medium-term. The offering followed on from a successful $529 million loan financing with relationship banks in late FY12.

- Fitch Ratings affirmed Investcorp's credit rating at BB in October 2012 and moved the rating outlook to stable. Moody's affirmed Investcorp's credit ratings at Ba2 with a negative outlook in November 2012.

- Net book equity at December 31, 2012 was $1.0 billion, unchanged from June 30, 2012. Our Basel II capital adequacy ratio (CAR) at December 31, 2012 increased to 27.8% (June 30, 2012: 26.9%), reflecting a decrease in risk-weighted assets. CAR is comfortably in excess of the Central Bank of Bahrain's (CBB) regulatory minimum requirement of 12%.

Investment and Realization Activity

- We have maintained our disciplined approach towards investment activity during the first half of FY13, mindful of the continued downside risks to global economic growth. We invested $266 million in new corporate investments including **Georg Jensen** and **FishNet Security**. The Investcorp Gulf Opportunity Fund I invested $69 million in stakes of **Orka Group** and **Automak Automotive Company**.

- We also facilitated several add-on acquisitions for portfolio companies including **Ceme**, **OpSec Security**, **TDX Group**, **Berlin Packaging** and **Gulf Cryo**.

- We deployed $126 million in ten new real estate investments. Three investments were combined and placed with clients in the **2012 Office Properties Portfolio**, five were combined and placed with clients in a Shari'ah compliant **Texas Apartment Portfolio II**, and the remaining two were combined to form another Shari'ah compliant portfolio, the **2013 Office Properties Portfolio**, to be placed with clients in H2 FY13.

- In hedge funds, we announced a new seeding partnership with **Kingsguard Advisors**, LP, a New York-based investment firm founded by two former Goldman Sachs senior executives. Kingsguard will focus on capitalizing on market opportunities across the entire fixed income spectrum including the rates, volatility, credit, and mortgage markets.

- We successfully exited **FleetPride** and **CCC Information Services** and completed a partial exit of **FleetMatics** via an initial public offering on the New York Stock Exchange. Our second technology fund, Investcorp Technology Ventures II, sold its investment in **Wells-CTI**; and in real estate, we closed the sales of the **Seelbach Hilton Hotel** and a 50% interest in the **Texas Retail Portfolio**. Distributions to Investcorp and its clients during H1 FY13 were $1.1 billion.

Portfolio Commentary

- At December 31, 2012 the carrying value of Investcorp's balance sheet co-investment in corporate investment – North America & Europe was $911.7 million (19 companies) compared with $1,027.2 million at June 30, 2012 (20 companies). The total co-investment amount represents 53% of total balance sheet co-investments at December 31, 2012, compared with 57% as at June 30, 2012. Only two investments represent more than 10% of shareholders' equity at December 31, 2012 – TelePacific and Berlin Packaging. The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment – technology was $89.9 million at December 31, 2012. Technology Ventures Fund I and Fund II are fully invested. The $500 million Investcorp Technology Partners Fund III, raised in 2008, is currently 64% deployed. The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment – MENA was $29.7 million at December 31, 2012. The $929 million Gulf Opportunity Fund I has invested 63% of its available capital.

- Investcorp's co-investment in hedge funds delivered unlevered absolute returns of 1.6% during H1 FY13 compared to 3.8% from the industry benchmark, HFRI Fund of Funds Composite Index. The underperformance was driven by Investcorp's higher allocations to portfolio insurance managers. With the exception of macro strategies, all other investment strategies produced very good returns during this period.

- At December 31, 2012, Investcorp's real estate balance sheet co-investments, including the recently acquired 2013 Office Properties Portfolio that was placed in early January, totalled $208.7 million compared with $154.5 million at June 30, 2012. This represented 12% of total balance sheet co-investments at December 31, 2012, compared with 9% at June 30, 2012. Investcorp currently has 26 active real estate investment portfolios, including three debt funds. The $108 million US Mezzanine Fund I, created in FY07 and the $176 million Investcorp Real Estate Credit Fund, created in FY08, are both fully deployed. The third real estate debt fund had its first close in May 2012 at $100 million.

Fundraising

- Total fundraising in H1 FY13 was $793 million. Corporate investment deal-by-deal placement was $204 million and real estate raised $73 million. New subscriptions into hedge funds from institutional investors were $516 million.

- Total assets under management at December 31, 2012 were $11.5 billion, unchanged from the level at June 30, 2012. Total client assets under management increased slightly to $9.1 billion at December 31, 2012 from $8.8 billion at June 30, 2012. The increase was largely due to strong fundraising activity, offset by the exit activity during the period, particularly in corporate investments.

- Hedge funds client AUM increased slightly over the six month period. At December 31, 2012, total hedge fund assets under management were $4.5 billion, of which $3.9 billion were client assets and $0.6 billion were Investcorp balance sheet co-investments. 75% of client assets were from US institutional investors and 25% from Gulf private and institutional investors. Assets under management with single managers increased and stand at 43% reflecting an increasing trend towards this product and 53% of client hedge fund assets under management are now through customized accounts.

DISCUSSION OF RESULTS

Net income

*Gross operating income includes **fee income** from client-centric activities and **asset-based income** from returns generated on balance sheet co-investments.*

Income ($m)	H1 FY13	H1 FY12	% change B/(W)
Fee income	147.6	82.0	80%
Asset-based income	5.3	10.5	(49%)
Gross operating income	**152.9**	**92.5**	**65%**
Provision for impairment	(3.4)	(0.4)	>(100%)
Interest expense	(33.9)	(22.9)	(48%)
Operating expenses	(76.4)	(64.0)	(19%)
Net income	**39.2**	**5.2**	**>100%**
Fully diluted earnings per ordinary share ($)	62	9	>100%

Gross operating income increased by 65% in H1 FY13 to $152.9 million (H1 FY12: $92.5 million). Fee income increased 80% from the comparable period last year due to a significant increase in acquisition, realization and placement activity. The $5.2 million decline in asset-based income largely reflects a continuation of the muted return environment for legacy European and Real Estate investments, offset to some extent by the ongoing recovery in hedge funds from the very negative returns experienced in H1 FY12.

Interest expense increased to $33.9 million from the combination of higher funding costs on post-2008 financings and the impact of commitment fees on undrawn revolver facilities. Operating expenses increased by 19% to $76.4 million (H1 FY12: $64.0 million) due to increased staff compensation arising in line with higher overall profitability.

The significant improvement in overall net income to $39.2 million, despite the ongoing challenges in Europe and generally muted economic growth environment elsewhere in the world, bears witness to Investcorp's strong Gulf franchise and the positive momentum we see in our core business of sourcing and placing private investment opportunities on a deal-by-deal basis with our Gulf-based investors.

Fully diluted earnings per ordinary share increased to $62 in H1 FY13 from $9 in H1 FY12.

Fee income

Fee income has two components (i) ***AUM fees*** *which includes management fees on aggregate client investments under management in corporate and real estate deals, as well as management and performance fees from client investments in hedge funds and (ii)* ***Deal fees*** *which are generated and earned over the full cycle of a corporate or real estate investment, including at the initial acquisition, subsequent placement with clients, ongoing value appreciation and at the point of eventual exit.*

Summary of fees ($m)	H1 FY13	H1 FY12	% change B/(W)
Hedge fund fees	16.3	19.1	(14%)
Other management fees	29.0	32.7	(11%)
AUM fees	**45.3**	**51.8**	**(12%)**
Activity fees	86.6	29.7	>100%
Performance fees	15.6	0.5	>100%
Deal fees	**102.3**	**30.2**	**>100%**
Fee income	**147.6**	**82.0**	**80%**

Total fee income earned in H1 FY13 increased to $147.6 million compared to $82.0 million in H1 FY12. Deal fees more than tripled with strong increases in acquisition, placement and realization fees leading to an increase in activity fees from $29.7 million to $86.9 million. Performance fees also increased significantly to $15.6 million, driven by the strong underlying performance of some of the more recent corporate investments. The strong improvement in deal fees was offset slightly by a $6.5 million (12%) decline in AUM fees to $45.3 million, primarily due to the reduction in management fees as a result of some closed-end funds reaching the end of their initial commitment period.

Asset-based income

Asset-based income is earned on Investcorp's corporate investment, real estate investment and hedge fund co-investments, as well as invested liquidity. Asset-based income also includes unrealized changes in fair value of corporate and real estate co-investments.

Gross asset-based income halved to $5.3 million (H1 FY12: $10.5 million). The decrease was mainly attributable to a flat performance from corporate investments compared to returns of over 6% in H1 FY12, and a further decline in the fair value of legacy (pre-2009) real estate investments. The decline in corporate investment and real estate investment returns was almost entirely offset by the continuing turnaround in the performance of hedge funds, which had suffered last year from adverse market conditions affecting the entire industry.

Asset-based income ($m)	H1 FY13	H1 FY12	% Change B/(W)
Corporate investments	0.0	65.4	(100%)
Hedge funds	6.9	(58.6)	>100%
Real estate	(3.8)	2.2	>(100%)
Treasury and liquidity income	2.2	1.5	46%
Gross asset-based income	**5.3**	**10.5**	**(49%)**

Treasury income includes interest income earned on invested liquidity and the impact of hedging decisions on managing foreign exchange risk. Average levels of invested liquidity remained low as surplus cash was used to pay down revolving facilities.

The table below shows the average balance sheet co-investment yield (absolute) for each of the last six half year periods, by asset class. Corporate investment returns over the last two half-year periods have been flat, mainly as a result of continuing uncertainty around European economic growth prospects and the US fiscal cliff debate. Real estate returns were negative for the first time in over two years in the first six months of FY13, primarily as a result of a decline in fair value of certain legacy investments with the post-2009 portfolio continuing to perform well and delivering targeted levels of on-going cash-on-cash rental yields. Hedge funds continued to show an improvement in performance in H1 FY13 and reported a total return of 2.9% for calendar year 2012.

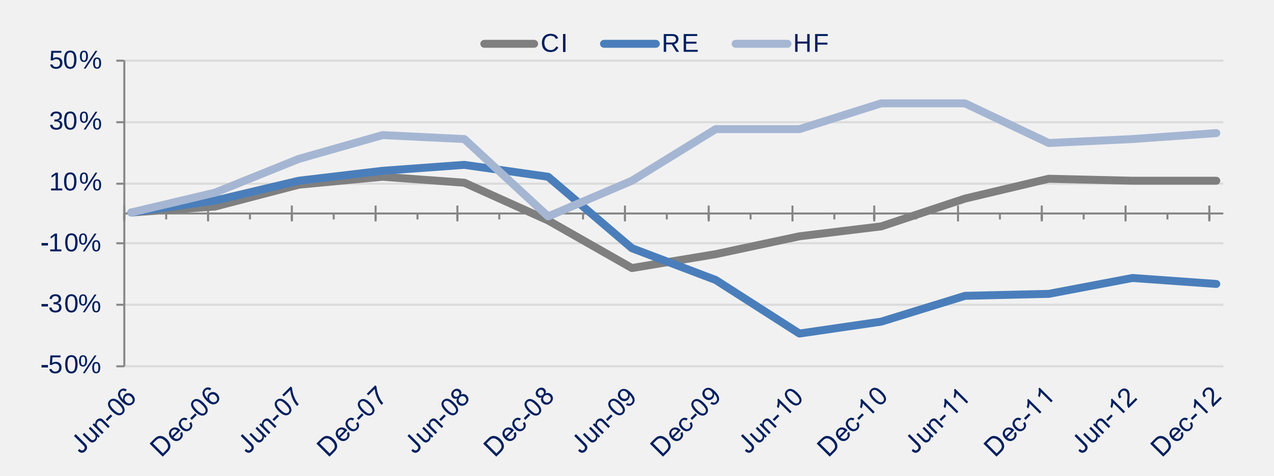
Asset yields	H2 FY10	H1 FY11	H2 FY11	H1 FY12	H2 FY12	H1 FY13
Corporate investments	7.2%	3.6%	9.5%	6.1%	(0.5%)	0.0%
Real estate	(22.5%)	6.9%	13.1%	1.0%	6.8%	(2.1%)
Hedge funds*	(0.4%)	7.1%	(0.3%)	(9.6%)	1.2%	1.7%
Average co-investment yield**	0.9%	3.8%	4.9%	0.4%	0.9%	0.3%

* Non $ weighted, levered returns on net balance sheet co-investment

** Includes treasury and liquidity income

The chart below illustrates the cumulative returns for each asset class since June 2006 on a non-dollar weighted basis.

Cumulative returns from Jun-06



Hedge funds show a cumulative return of 26.6% and remain significantly above the low point reached in December 2008. The cumulative return for corporate investment of 10.9% reflects a flat return environment over the last twelve months, while the recovery in real estate investments has continued to be weighted down by the legacy (pre-2009) portfolio.

Asset-based income by asset class

The tables below summarize the primary drivers of asset-based income for corporate investment (CI), hedge funds (HF) and real estate investment (RE):

CI asset-based income KPIs ($m)	H1 FY13	H1 FY12	% Change B/(W)
Asset-based income	0.0	65.4	(100%)
Average co-investments (excluding U/W)	1,064.0	1,072.0	(1%)
Absolute yield for period	0.0%	6.1%	(6.1%)

HF asset-based income KPIs ($m)	H1 FY13	H1 FY12	% Change B/(W)
Asset-based income	6.9	(58.6)	>100%
Average co-investments	402.2	630.0	(36%)
Non $ weighted returns	1.7%	(9.6%)	11.3%

RE asset-based income KPIs ($m)	H1 FY13	H1 FY12	% Change B/(W)
Asset-based income	(3.8)	2.2	>(100%)
Average co-investments	178.6	214.1	(17%)
Absolute yield for period	(2.1%)	1.0%	(3.1%)

Interest expense

Total interest expense of $33.9 million in H1 FY13 was 48% higher than in H1 FY12.

Interest expense ($m)	H1 FY13	H1 FY12	H1 FY13 vs H1 FY12 H/(L)
Average short term interest-bearing liabilities	434	417	18
Average medium & long term interest-bearing liabilities	1,169	1,399	(229)
Average interest-bearing liabilities	**1,604**	**1,815**	**(212)**
Interest expense	33.9	22.9	11.0
Average cost of funding	4.1%	2.5%	1.7%

The average level of interest bearing debt declined by 11.6% in H1 FY13, reflecting ongoing deleveraging through repayment of medium and long term debt. This was offset by an increase in funding costs associated with post-2009 financings including the recent issuance of a $250 million public bond. The average cost of funding also includes the impact of commitment fees paid on undrawn revolving facilities.

The table below breaks down the impact on interest expense from these three components.

Interest expense variance ($m)	H1 FY13 vs H1 FY12
Due to lower average interest-bearing debt	(2.7)
Due to higher commitment fee on undrawn revolvers	2.6
Due to increase in average cost of funding	11.1
Total variance	**11.0**

Operating expense

Operating expenses increased by 19% from $64.0 million in H1 FY12 to $76.4 million in H1 FY13 primarily due to increased staff compensation in line with improved profitability compared to last year. Staff compensation represented 47% (H1 FY12: 40%) of total operating expenses.

Other expenses, comprising professional fees, travel and business development, administration and infrastructure costs and non-compensation personnel costs such as training and recruitment rose slightly by 4% versus last year.

Opex metrics ($m)	H1 FY13	H1 FY12	Change
Staff compensation	36.2	25.3	43%
Other opex	40.3	38.7	4%
Total opex	**76.4**	**64.0**	**19%**
Full time employees (FTEs) at end of period	**297**	**306**	**(9)**
Staff compensation per FTE ($000s)	121.9	82.8	39.1
Other opex per FTE ($000s)	135.5	126.5	9.1
Total staff cost / total opex	47%	40%	8%
Opex / (net income + opex)	66%	92%	(26%)

Total expenses, as a percentage of net revenues fell from 92% in H1 FY12 to 66% in H1 FY13.

Income by segment

The following table summarizes the gross operating income of each business segment, showing fee income and asset-based income earned by each business unit.

Summary by business units ($m)	Fee income			Asset-based income			Total		
	H1FY13	H1FY12	Change	H1FY13	H1FY12	Change	H1FY13	H1FY12	Change
Corporate investments	118.1	54.4	>100%	0.0	65.4	(100%)	118.1	119.8	(1%)
Hedge funds	16.0	18.7	(14%)	6.9	(58.6)	>100%	23.0	(39.9)	>100%
Real estate investment	13.5	8.9	52%	(3.8)	2.2	>(100%)	9.7	11.0	(12%)
Treasury & liquidity	-	-	-	2.2	1.5	45%	2.2	1.5	45%
Gross operating income	**147.6**	**82.0**	**80%**	**5.3**	**10.5**	**(49%)**	**152.9**	**92.5**	**65%**

Gross operating income for all business units was positive in H1 FY13. Corporate investment was relatively flat period-on-period with a significant increase in fee income offsetting a decline in asset-based income. Hedge funds had a turnaround in overall operating income as a result of the recovery in asset-based income in H1 FY13 compared to H1 FY12, despite a slight fall in fee income. Real estate, like corporate investments, had a strong growth in fee income but this was offset by the drag on asset-based income from legacy investments.

Balance sheet

Key balance sheet metrics are shown in the table below.

Balance sheet metrics	Dec-12	Jun-12
Total assets	$ 2.7 billion	$ 2.7 billion
Financial leverage*	1.3x	1.6x
Liabilities / equity	1.7x	1.6x
Shareholders' book equity	$ 1.0 billion	$ 1.0 billion
Co-investments** / long term capital***	1.0x	1.1x
Regulatory risk asset ratio (Basel II)	27.8%	26.9%
Residual maturity - medium & long term facilities	85 months	81 months

* Adjusted for transitory balances

** Co-investments excludes amounts underwritten for CI and RE investments pending placement to clients

*** Long term capital consists of JPY 37 billion ($430 million at current exchange rates) debt maturing in 2030, $50 million debt maturing in 2032 and total equity

Assets

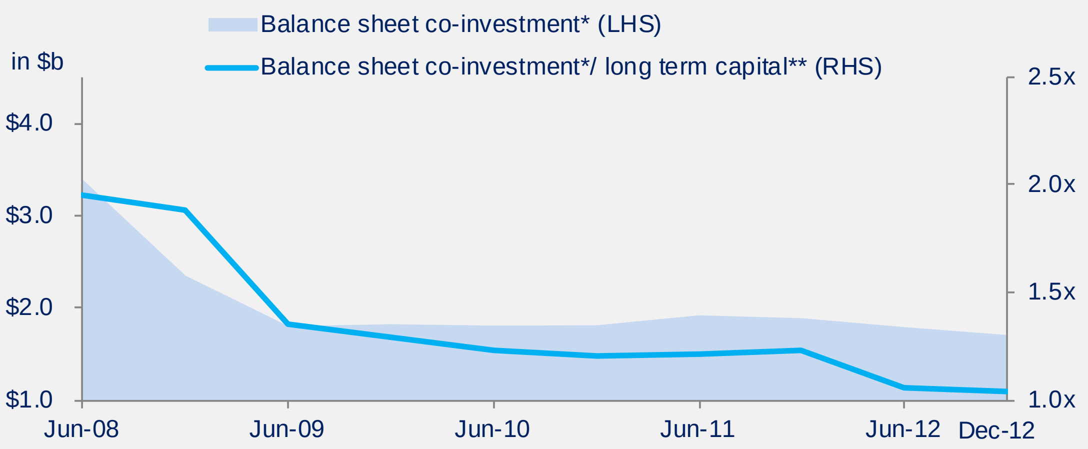
At December 31, 2012, total assets were $2.7 billion, marginally lower than the previous fiscal year end level.

Assets ($m)	Dec-12	Jun-12	Change H/(L)
Cash & equivalents	410	348	62
Other liquid assets *	3	3	-
HF co-investments	379	414	(36)
CI and RE co-investments	1,326	1,376	(50)
Other (working capital & fixed assets)	581	609	(28)
Total assets	**2,699**	**2,750**	**(51)**
Co-investment assets	**1,705**	**1,790**	**(85)**

* Non-cash equivalent

Co-investments in corporate investment, hedge funds and real estate decreased by $86 million. The aggregate level of co-investments excluding amounts underwritten and pending placement to clients was 1.0x the amount of long term capital (equity plus long term debt maturing in 2030 or later) at December 31, 2012. As shown in the chart below Investcorp had been moving towards a targeted ratio of 1.0x or lower, such that the entire balance sheet co-investment portfolio is funded through very long term or permanent sources of capital with no reliance on medium-term debt financing for this purpose.

Co-investments are funded entirely by long term capital



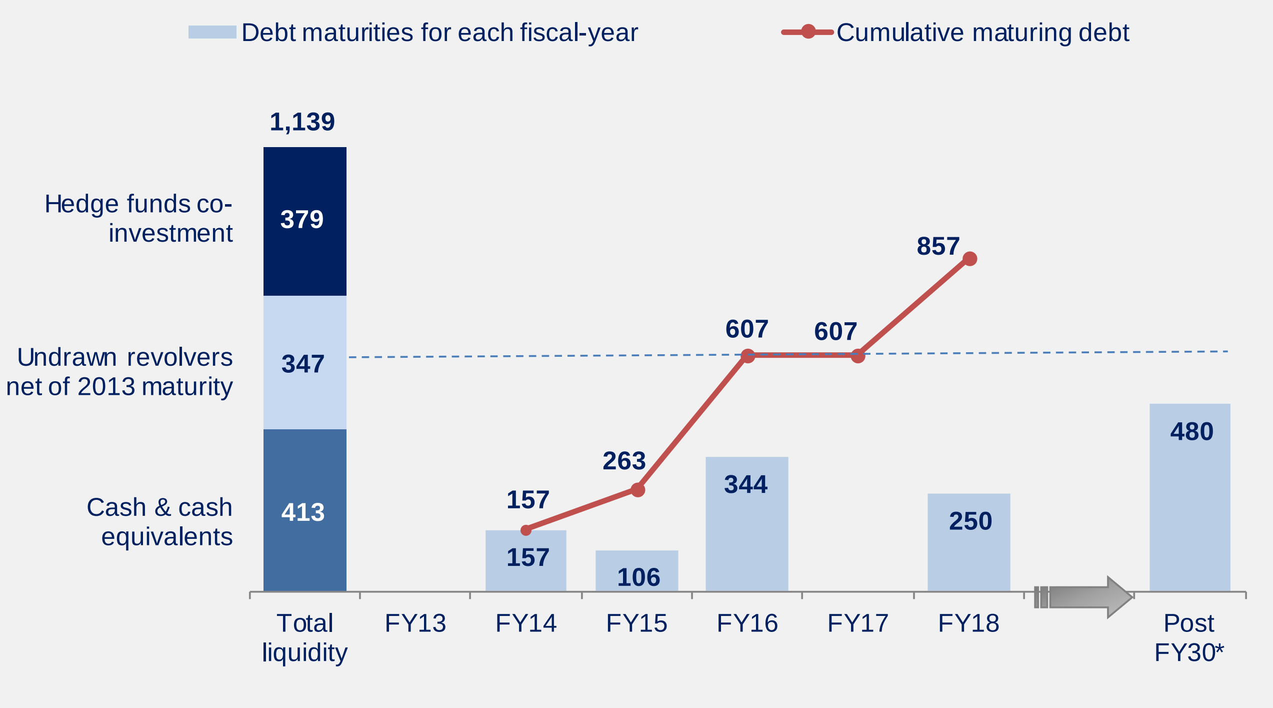
* Excludes underwriting

** Long term capital consists of JPY 37 billion debt maturing in 2030, $50 million debt maturing in 2032 and total equity

Liquidity

Accessible liquidity (cash plus undrawn committed facilities) at December 31, 2012 was $760 million (June 30, 2012: $596 million). Undrawn committed facilities were $347 million, representing $514 million undrawn under a $529 million forward start facility, less $167 million that will be used to repay outstanding debt due in April 2013.

Total liquidity, including $379 million of hedge fund co-investments (of which >50% is contractually available within a three month period) was $1,139 million. The level of total liquidity covers the total amount of term debt repayments that fall due over the next five years inclusive of the amortizing repayments due in September 2013 (15%), September 2014 (20%) and September 2015 (65%) on the $529 million facility signed in June 2012.



* JPY 37 billion ($430 million at current exchange rates) debt maturing in 2030 and $50 million maturing in 2032

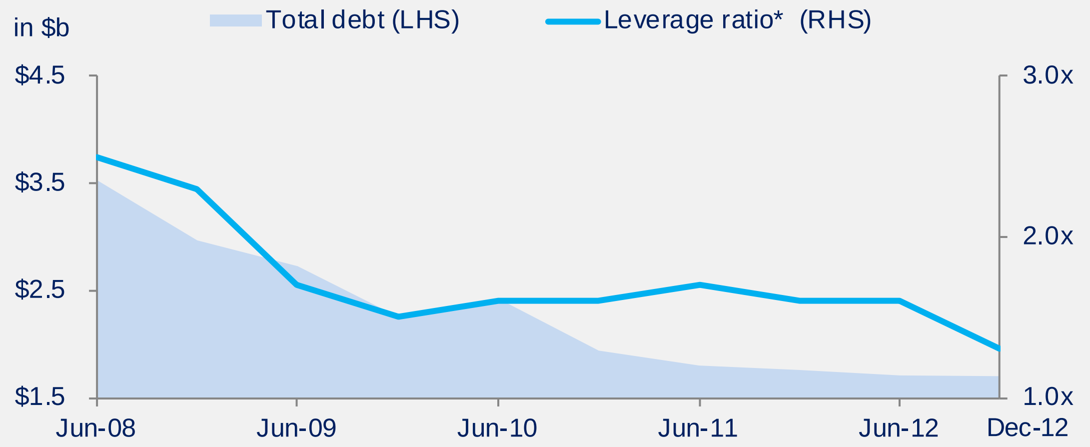
Liabilities

Total liabilities at $1.7 billion remained unchanged from June 30, 2012.

Liabilities ($m)	Dec-12	Jun-12	Change H/(L)
Client & other deposits	486	205	280
Medium term debt & deposits	488	579	(91)
Medium term revolvers - drawn	84	107	(23)
Long term debt	492	560	(69)
Other	150	254	(104)
Total liabilities	**1,699**	**1,706**	**(6)**

Financial leverage continues to steadily decline in line with Investcorp's medium term deleveraging objective.

Financial leverage



* Financial leverage adjusted for transitory balances

In October 2012, Investcorp successfully completed a $250 million bond issue in the public markets. The bonds, which mature in November 2017, were issued by Investcorp S.A. and are guaranteed by Investcorp Bank B.S.C. The offering was well received from a wide array of almost 100 global investors, resulting in an oversubscribed order book that included private banks (60%) and institutional investors (40%). Geographical distribution was well-diversified with 46% of investors from Europe, 27% from the Middle East, 15% from Asia and 12% from the United States. This was Investcorp's first offering in the public dollar-denominated debt market and followed on from a successful $529 million loan financing with relationship banks in late FY12.

The bond issue adds further flexibility and duration to the overall liquidity and funding profile and provides a robust platform for pursuit of the firm's business objectives over the medium term. Proceeds from the issue have been used to repay drawn revolving facilities and prepay term debt facilities that were due to mature in March 2013.

Credit ratings

Below is a summary of Investcorp's public credit ratings:

Agency	Rating grade	Comment
Moody's Investors Service	Ba2 Negative Outlook	Rating and outlook affirmed in Nov 2012
FitchRatings	BB Stable Outlook	Rating and outlook affirmed in Oct 2012

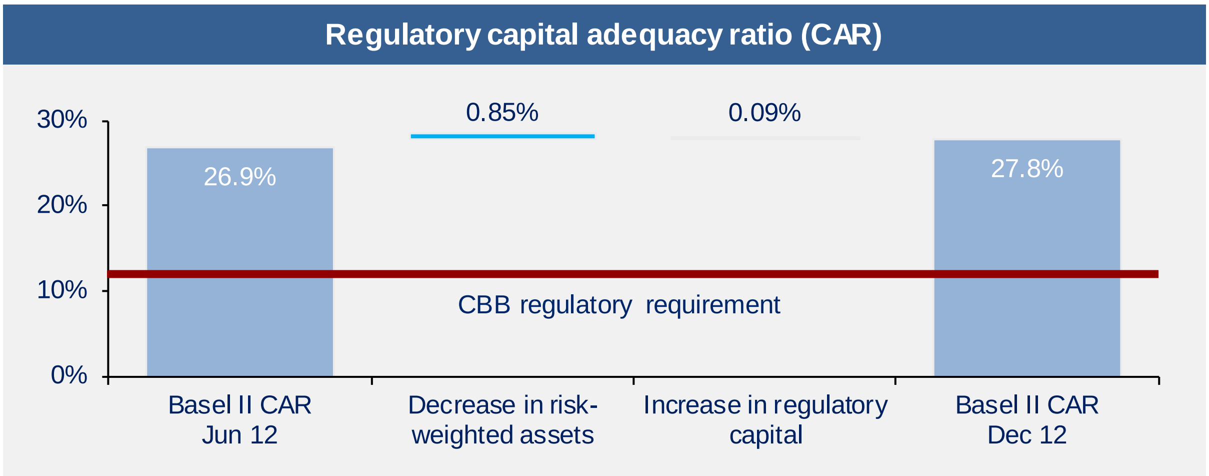
In October 2012, Fitch Ratings affirmed Investcorp's credit rating at BB and moved the rating outlook to stable to reflect the successful completion of the $529 million loan facility in June 2012 which addressed debt maturities due in March and April 2013. Moody's affirmed Investcorp's credit ratings at Ba2 in November 2012. Both rating agencies continue to recognize Investcorp as a strong Gulf-based alternative investment franchise maintaining adequate levels of capital with appropriate measures to mitigate risk from any regional unrest.

Book equity

Net book equity at December 31, 2012 was $1.0 billion, unchanged from June 30, 2012.

Equity ($m)	Dec-12	Jun-12	Change H/(L)
Ordinary shareholders' equity	485	453	32
Preference share capital	511	511	0
Proposed appropriations	-	66	(66)
Fair value & revaluation adjustments	3	13	(10)
Net book equity	**999**	**1,044**	**(44)**

The Tier 1 capital adequacy ratio (CAR) at December 31, 2012 increased to 27.8% (June 30, 2012: 26.9%), reflecting a decrease in risk-weighted assets. The CAR level, based on Basel II standards, is comfortably in excess of the Central Bank of Bahrain's (CBB) regulatory minimum requirement of 12%. Investcorp continues to monitor the impact of Basel III on both its regulatory capital and its liquidity position, and expects the impact to be readily manageable given its healthy capital and liquidity position and the most recent Basel III and CBB guidance.



MARKET CONTEXT

The global economy

In 2012, an already weakened global economy suffered a series of new challenges creating even greater uncertainty and making the prediction of future growth and prospects more difficult.

The Eurozone crisis gained momentum during the first six months of calendar 2012 with economic growth slowing as a result of deteriorating sentiment across the globe. Analysts expect that this pressure in the Eurozone will continue to dampen economic activity into 2013, compounded with the on-going uncertainty in the US. Whilst the specific issues related to the much mooted US 'fiscal cliff' have abated for now, they have not disappeared and only a modest level of growth is expected in 2013, with the general outlook still being one of a slow and protracted recovery.

The global economic slowdown during the last 12 months has been most pronounced in the Eurozone with many of its economies in recession mode. Several significant market 'fractures' triggered by, amongst other things, Greek political and financial concerns, Spain's banking woes and the downgrading of both French and German sovereign debt, led to rising periphery bond yields with equity markets weakening as the Euro depreciated. However, as a result of action taken by the European Central Bank, together with the US Federal Reserve's monetary easing measures, there has been a reduction in tail-risk and some improvement in market sentiment towards the latter half of 2012.

Europe experienced negative GDP growth of approximately 0.4% for calendar 2012 and growth is projected to improve marginally but remain negative in calendar 2013. In the United States, real GDP is expected to grow by approximately 2.3% for 2012 and 2.0% in 2013. According to the IMF, risk-averse investor confidence, weak household balance sheets, relatively tight financial conditions, and continued fiscal consolidation will drag on stronger growth.

Compared to these advanced economies, emerging markets and developing economies, specifically those in Asia, continue to outperform but not without one or two areas of concern. Policy tightening due to capacity constraints, concerns for possible deteriorating bank loan portfolios and weaker demand from advanced economies has slowed GDP growth in emerging market and developing economies from approximately 7.5% in late 2009 to 5.1% in 2012.

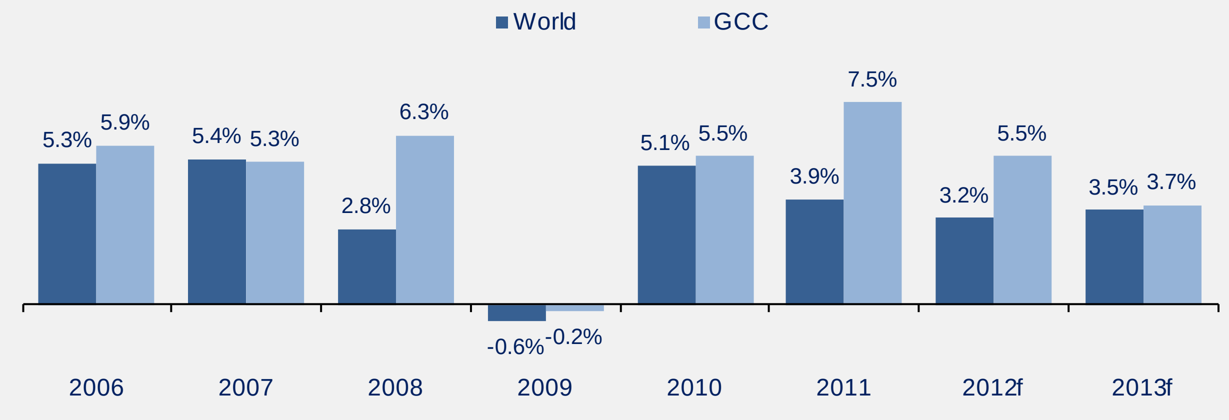
From a global perspective, the outlook is for a slow uplift in output but with major downside risks. Economic activity is expected to pick-up slightly across both advanced and emerging economies in 2013, but that is predicated on two important assumptions. These are that European policymakers will take steps to stabilize and gradually bring down sovereign debt spreads and that the 'detente' agreed by US policymakers to avoid the 'fiscal cliff' at the end of 2012 will hold, thus avoiding significant automatic spending cuts.

In summary, subject to these assumptions, by the end of 2013, policy initiatives are likely to have taken effect to control 'debt contagion' and to help drive global growth.

The Gulf

In the Gulf Cooperation Council (GCC) region, growth remains robust, supported by expansionary fiscal policies and accommodative monetary conditions. Despite a recent increase in spending, balance sheets in the Gulf remain quite strong, offsetting the potential impact of any future oil price weakening. The broader medium-term challenge is to generate enough jobs for a young and rapidly growing population, prioritize investments in infrastructure and continue to rebuild the strength of the financial sector.

Comparison of regional annual GDP growth



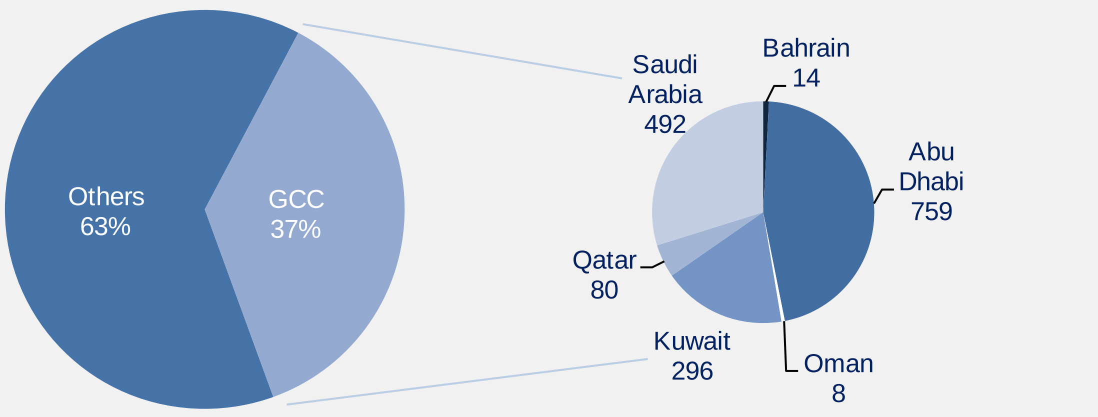
Source: IMF World Economic Outlook - January 2013 & Regional Economic Outlook - November 2012

In calendar 2012, overall real GDP growth for the GCC reached 5.5% albeit with a forecasted slowdown to 3.7% growth in calendar 2013 due to the continuing global uncertainties. Nevertheless, it is still expected to remain one of the world's best performing regions. The region has outpaced global growth in each of the last five years.

The GCC's oil exporting economies have been able to use proceeds from strong oil prices to sustain growth in a weak overall global environment and mitigate Europe contagion-related risks.

Oil production, which accounts for 75% of Gulf exports, has risen by more than 10% in recent years and has been supported by non-hydrocarbon growth. Whilst external debt has increased in some countries since the 2008-09 global financial crisis (notably Saudi Arabia), it is dwarfed by the size of foreign exchange reserves and assets held by regional Sovereign Wealth Funds (SWFs). More than one third of the world SWF assets are held in the GCC.

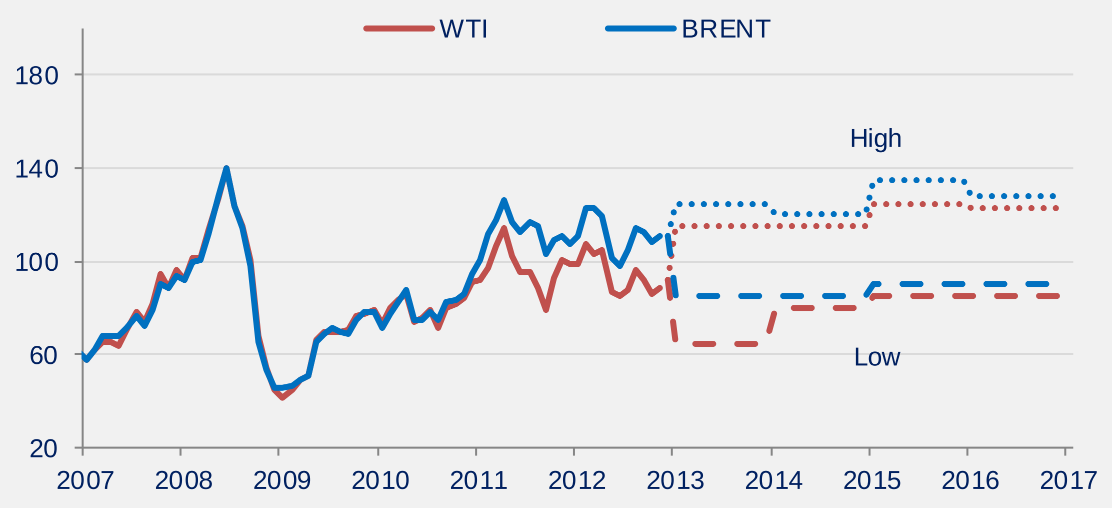
GCC SWF AUM ($b)



Source: Various public sources & DB Research

The price of oil is expected to remain above $100 per barrel in 2012–13 and in excess of current fiscal break-even levels for the region. Oil prices are expected to dip slightly in calendar 2013 due to weak global growth and the return of Libyan full oil production, but they are expected to strengthen again in calendar 2014 and 2015 as global demand returns. As government spending commitments rise further, particularly on current spending such as salaries, pensions and public services, the benchmark break-even oil price will rise. Although new technologies relating to Shale gas for example could have an impact on prices in the future, current fundamentals are strongly underpinned by the growing affluent middle classes in China, India, across the Middle East and throughout the emerging economies, and are continuing to drive demand for energy and oil.

Historical and forecasted oil prices: WTI vs Brent crude ($/bbl)



Source: Bloomberg & Investcorp's own analysis

As a result, the region's oil exporters' combined current account surplus is anticipated to remain near its historic high of approximately $400 billion in 2012. Longer term, demand for oil is projected to grow steadily over the next 20 years, providing a solid platform for continued growth in the level of public external assets of the GCC, projected at $3 trillion by 2017.

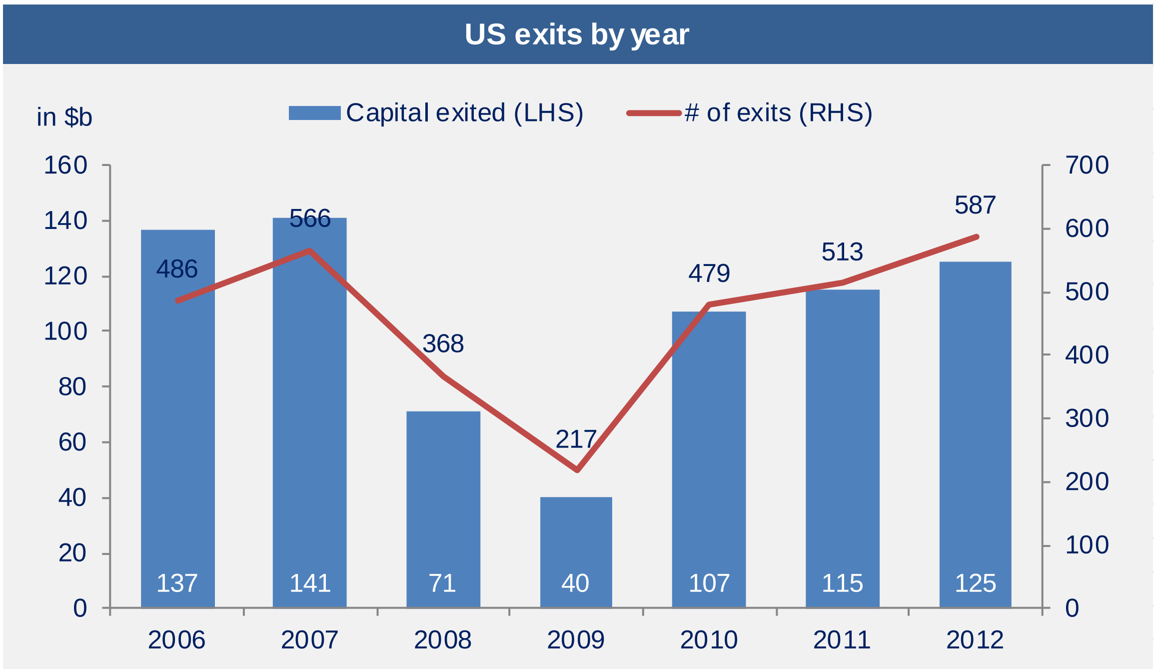
The macro-economic dynamics of the region will continue to underpin growth and the accumulation of investment wealth. According to recent research, the rise of the 'ultra' wealthy continues with approximately 63,000 people worldwide with $100 million or more in assets (centa-millionaires), an increase of 26% since 2006 with strong growth expected in the years ahead. Despite Eurozone uncertainty weakening the performance of the broader global economy, the Middle East is the only region globally to have recorded positive growth in total wealth of High Net Worth Individuals (HNWI) from 2010 to date.

In summary, the GCC appears well 'protected' against potential further deterioration in the global economy, with its strong position further underpinned by significant government spending in recent years with adequate fiscal budgets available to offset any dramatic fall in oil prices.

Business Environment

Corporate investment – North America and Europe. Calendar year 2012 was a mixed year, largely impacted by geopolitical and macroeconomic events, with global weather even playing a disruptive role. The M&A market experienced a slow beginning and end to the year, with an uncharacteristically busy summer. Overall, new deal volume was not as robust as anticipated. In terms of performance, there was consistent growth in select sectors, yet continued weakness in the economy created an overhang over this fragile recovery.

In North America, a modest but steady economic recovery and favorable credit markets have allowed private equity firms to return healthy amounts of capital to their investors over the past 18 months. Companies have continued to grow and the climate for new investments remains positive. Deal activity in calendar year 2012 was driven by secondary buyouts, low interest rates and tax uncertainty. A constant theme throughout the year has been a flight to quality by equity investors and lenders alike. The best opportunities are attracting more than their share of interest and strong companies are attracting premium pricing.



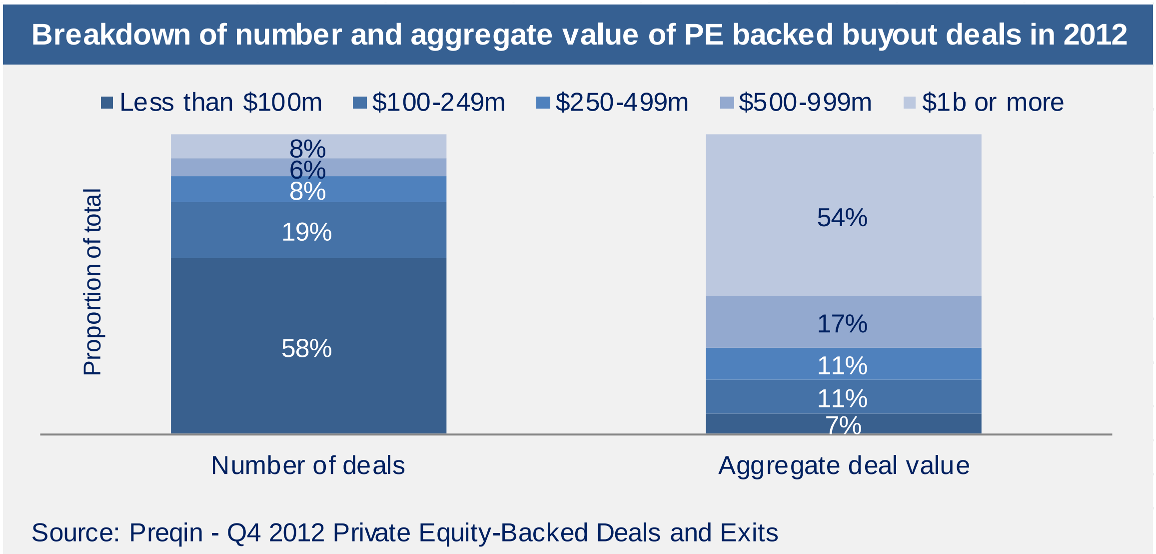
Source: Pitchbook - The 2013 Annual Private Equity Breakdown

The inventory of private equity backed companies in the US continues to grow, albeit at a slower pace than in previous years. There are currently more than 6,500 US companies owned by private equity firms and nearly half of these were acquired at the height of the financial boom, pre-2008. Consequently, the typical three to five year holding period for a portfolio company is slowly increasing. The current median age of a private equity-backed company is 4.9 years. This is expected to increase further as private equity firms' focus on revenue growth and operational improvements, rather than financial engineering and multiple arbitrage, to drive returns.

In Europe, there is now greater clarity in the outlook for calendar year 2013 than was the case at this time last year, for calendar year 2012. However, fundamental issues affecting the wider European market, which are driven by a dearth of bank lending as well as political and economic uncertainty, may take a few years to work through. Transactions are also taking longer to complete and there is a backlog of companies sitting in private equity portfolios that need to find a new home. Leverage levels are still substantially lower than pre-crisis thresholds and banks are reasserting their influence with financial sponsors and not always extending maturities on existing transactions, given the increased regulatory and capital pressures they face. Financial deleveraging, especially in existing European portfolios, is expected to continue and may become increasingly important if growth slows further.

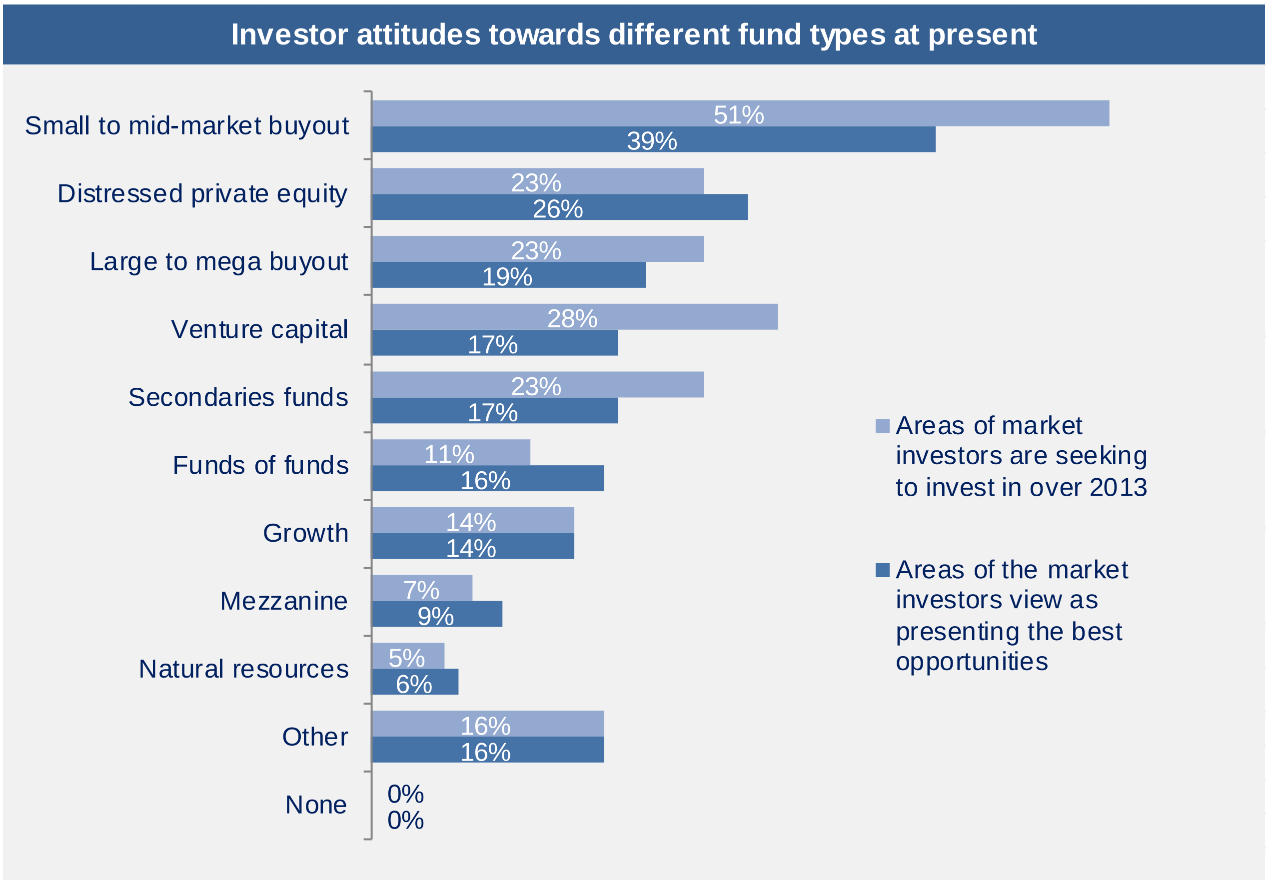
As the industry enters calendar year 2013, an abundant supply of liquidity has once again put multibillion-dollar deals within reach. Nevertheless, middle-market deals continue to be our mainstay, although a dwindling supply of quality inventory, combined with rising valuations, has added new layers of complexity to getting deals across the finish line.

There is also a lot of uncertainty for calendar year 2013 as politically, the environment is less business-friendly with higher taxes and health-care costs, and financial questions remain unanswered in the euro zone and beyond. The amount of dry powder currently available to private equity firms, combined with the fact that a number of private equity firms are running out of time as their commitment periods come to an end, suggests that deal activity in calendar year 2013 is likely to be robust and that competition for quality investments will remain high.



Fundraising in the private equity industry continued to be challenging in calendar year 2012 yet there was a slight improvement over the level of fundraising seen in calendar year 2011. In fact, since 2008, the level of fundraising has fluctuated around $300 billion each year, so it is positive to see the amount raised in calendar year 2012 surpass this. With a record number of funds on the road and with the time taken to raise funds increasing slightly (the average length of time spent fund-raising in the market was 17 months in calendar year 2012, up from 16 months in calendar year 2011), the market is expected to remain very competitive during calendar year 2013.

Absolute return expectations continue to be lower, in line with similarly lower return expectations from public equities and bonds, compared to historical averages. However, the long term outperformance of alternatives such as private equity is likely to attract investors given its ability to deliver superior, non-correlated returns over the economic cycle. Even in the current economic climate, there is a broad swathe of middle-market companies in the US and Europe with strong market niches and thus the potential to out-perform the broader economy. This is particularly true when the company is backed by an active, experienced private equity owner who has a clear strategy to create value and drive operational improvements.



According to Preqin, investors continue to see the small to mid-market buyout sector as offering the best investment opportunities.

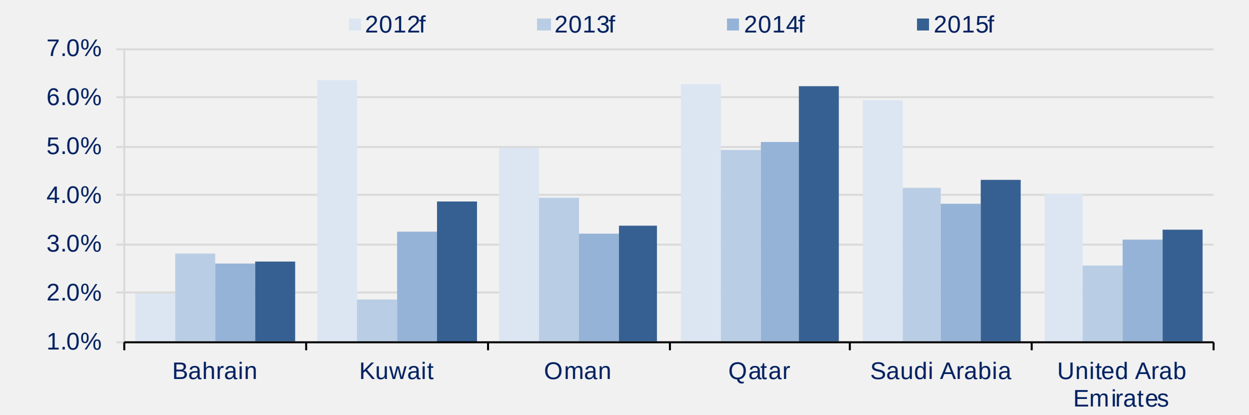
Corporate investment – Technology. The technology sector has continued to see strong M&A activity, driven by strategic buyers with substantial cash resources seeking to expand into new markets or acquire new technologies. The top 20 technology companies have increased their cash coffers to over $300 billion. US buyers have been dominant as M&A transactions in the US IT space amounted to 1,721, at par in volume with the previous year.

Global IT spending is projected to increase in 2013. Long term IT spending is projected to be consistent and achieve above-GDP growth. A survey of US and European CFOs indicates an expected rise in spending next year. Corporate spending on IT remains buoyant, with efficiency and regulation acting as powerful growth drivers, and the need for growth is fuelling technology M&A activity.

The technology IPO market has been active as investors sift through the elevated backlog from 2011, including the highly anticipated offering of Facebook. However, most technology debuts have not fared well in the market as current valuations are materially lower than their offering prices. Business-to-Business companies such as Workday, ServiceNow and FleetMatics, however, have generally outperformed the Business-to-Consumer companies such as Facebook and Zynga. Sub-sectors in which investment activity may be concentrated include mobility, social media and cloud computing.

Corporate investment – MENA. Across the GCC, the macroeconomic environment continues to prove its resilience against a more challenging global economic backdrop and is expected to continue to outperform developed markets in terms of GDP growth in 2012 and 2013. Economic growth in the GCC is mainly underpinned by healthy oil revenues and the continuation of expansionary fiscal and accommodative monetary policies.

GDP growth in GCC countries



Source: IMF Regional Economic Outlook - November 2012 & IMF World Economic Outlook Databases

In Turkey, 2012 and 2013 GDP growth is estimated at 3.2% and 4.0%, respectively. The government has successfully narrowed the country's current account deficit from $78 billion (10% of GDP) to $53 billion (7% of GDP).

Government stimulus packages, infrastructure projects and regulatory reforms embarked upon by various GCC governments continue to attract the interest of private equity investors in defensive, growing and demographically-linked sectors such as transportation, consumer retail, food and beverage, education, healthcare and oil and gas.

In the first half of FY13, only five sizable private equity investments were executed in the region. These investments were in Saudi Arabia, Kuwait and Turkey and were in the consumer goods, healthcare and transportation sectors.

Private equity investors also continue to seek exits for their mature portfolio companies as pressure mounts from investors to realize a return on their investments. However, in the first half of FY13, no sizable private equity exits were concluded. Lack of liquidity on regional stock exchanges, coupled with pressures from investors to realize exits, is expected to seed the market for secondary transactions in the region. A total of three IPOs were conducted in the second half of calendar 2012, raising $501 million in aggregate proceeds. A strong IPO pipeline in Saudi Arabia and the United Arab Emirates is expected to result in further listings.

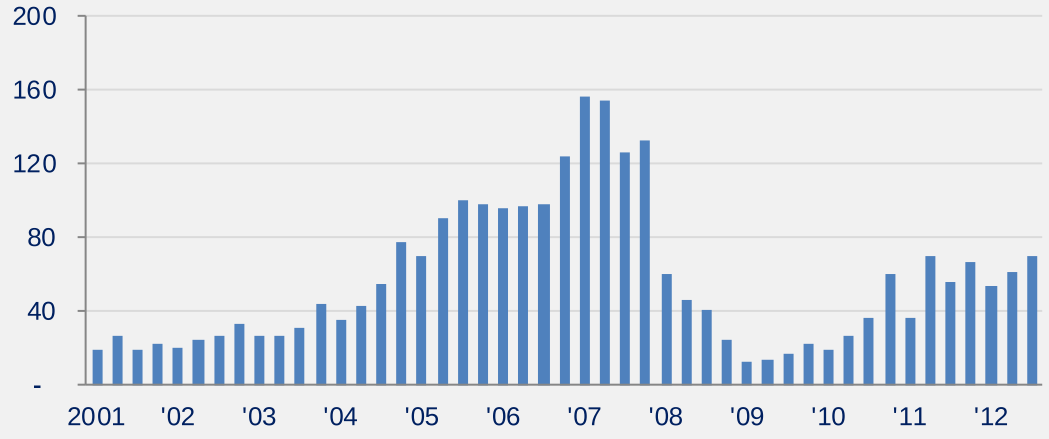
Private equity companies' ability to secure acquisition financing continues to improve with abundant domestic liquidity, while higher energy prices and increased hydrocarbon production drive credit growth. With domestic liquidity in excess of $778 billion, driven by expansion credit which increased to over $833 billion, the GCC remains attractive for private equity sponsored acquisition financing.

In summary, despite the negative impact of a generally weak global economy and geopolitical tensions within the region, the GCC continues to benefit from robust oil revenues and high government expenditures in key sectors and continued strong demographic trends. Deal flow has picked up somewhat, resulting in a favorable environment for well capitalized investment firms to continue to find attractive investment opportunities.

US real estate. The US commercial real estate market continued its slow recovery during the second half of calendar 2013. Primary markets generally saw operating fundamentals improve and vacancy rates decline in most sectors. As has been the case since the recovery began, capital flows were most focused upon cash yielding properties in primary locations. However, the recent trend by some investors to pursue opportunities in secondary and even tertiary markets, in the quest for higher yields, has gained further momentum.

Transaction volume was strong during the half year. Through November 2012, the year-to-date transaction volume was comparable to the 2011 total of approximately $225 billion. In addition, December volume began briskly and full calendar year 2012 volume is expected to exceed $250 billion. A portion of this robust transaction volume towards the end of the calendar year was attributable to the general perception following the US elections that the capital gains tax rate would increase. Subsequently, the deal struck by the US Congress to avert the "fiscal cliff" assured that higher capital gains taxes would become a reality as the rate increased from 15% to 20%. In terms of individual property sectors, the lightest volume totals were seen in the hotel sector. According to Real Capital Analytics, hotel transaction volumes declined for four consecutive quarters through the third quarter of calendar year 2012. However, the office property sector witnessed rising interest. As an example, November office sales were double the amount of the same period a year earlier. In addition, the "for rent" multi-family sector continued to garner strong investor interest and as of the end of November, for the first time in over a decade, sales of multi-family properties were on track to outpace office property transactions for the calendar year.

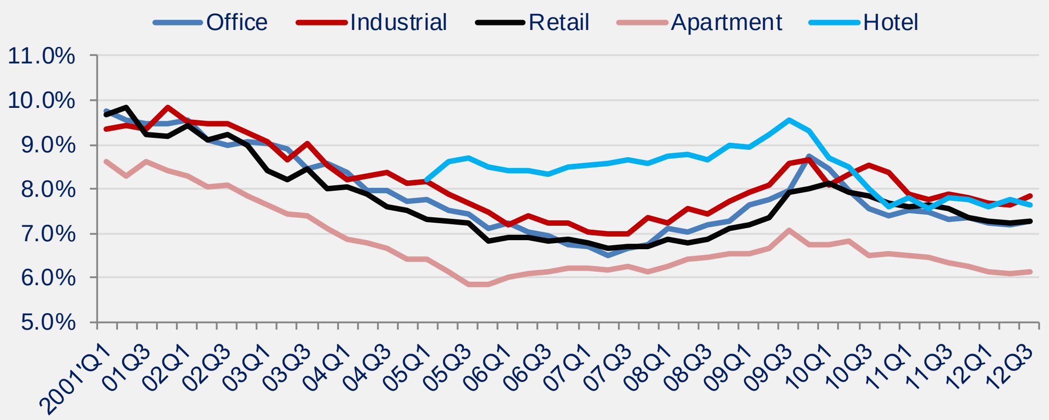
Transaction volume ($b)



Source: Real Capital Analytics

The low interest rate environment in the US has helped to keep capitalization rates relatively low and those rates remained stable during the first half of the fiscal year. Nationally, capitalization rates average between 6%-8% depending on the location and sector. In primary markets, the capitalization rates for “trophy” assets are substantially lower. Not all large cities are the beneficiaries of these lower rates. The most significant compression of rates has taken place in major gateway markets with strong, diversified economies and positive demographics, such as New York, San Francisco and Chicago. Markets that are home to industries such as technology, communication, energy and healthcare, where the US is globally competitive, are also thriving. These include markets such as Houston, Denver and the Research Triangle Park region in North Carolina, among others.

Average cap rates



Source: Real Capital Analytics

Across property sectors there are a number of trends that are having an important impact in the current environment. These trends bode well for the "for rent" multi-family and office markets, and for some retail and industrial categories. Their impact on the hotel market is slightly less favorable. In the "for rent" multi-family sector, the trend away from home ownership in the US has strengthened this sector as consumers have delayed major investment decisions during uncertain times. Coupled with this phenomenon, new household formation is on the rise in the US while new supply is expected to be low for the foreseeable future.

As always, the pace of recovery in the office sector is linked to employment growth. On a positive note, job statistics in the US have been moving in the right direction. In addition, it appears that the suburban office market may be "oversold" nationally. The retail sector is improving as the economy generally strengthens. This improvement, though broad-based, is most notable for properties such as community shopping centers anchored by groceries or pharmacies and regional malls. Conversely in retail, "big box" concepts are seeing margins eroded by online retailing. This trend is a good underpinning for the industrial sector where inventory and fulfilment centers are seeing increased demand. However, older properties in this sector may not have the correct specifications for today's needs and low barriers to new supply in this sector are also an issue.

After a strong calendar year 2011, the strength of the hotel sector has been muted this year. Full service hotels in gateway cities have performed well but are vulnerable to new supply. Overall, the hotel sector, and the limited service sector in particular, has had difficulty improving operating performance during this period as room rate growth has been somewhat static and investor interest has been tepid. These trends, among others, will inform investment decision making during the first half of calendar 2013 and beyond.

The commercial real estate financing markets continue to provide attractive opportunities for investment. Approximately $2 trillion in commercial and multi-family real estate loans will mature through calendar 2018. There continues to be a lack of available capital to refinance these loans as they come due. This anomaly has created an environment where investors who are capable of providing this type of financing are being well rewarded by historical standards and are positioned to receive high current income returns while enjoying a more senior position in the capitalization with respect to the equity investors. In addition, in many cases, they may participate on a basis that is still well below peak valuations.

Hedge funds. Hedge fund returns over the last three years have been weak, primarily due to very low risk free rates and defensive positioning by managers. The industry faced a tough environment in the first half of calendar 2012 but there has been some improvement in the second half, influenced by a number of factors.

Fears of a European sovereign debt crisis and the associated tail risk appear to have subsided following the actions of the European Central Bank (ECB). The ECB provided three year liquidity to banks through two tranches of Long Term Refinancing Operations and then followed up with strong statements to “do whatever it takes” to save the Euro. Significantly in September 2012, ECB stated that it was prepared to buy unlimited amounts of the sovereign debt of troubled economies in order to lower borrowing costs. Around the same time, the US Federal Reserve announced a commitment to open-ended quantitative easing and increased the level of monthly bond-buying to $85 billion. It also provided further guidance on maintaining near-zero short-term interest rates until at least mid-2015. Correlation levels amongst asset classes have gradually moved lower and security selection has started to work again.

The reduction of tail risk and lower asset correlation has motivated hedge fund managers to take on more risk which in turn has helped to deliver an improvement in performance.

Two areas of the hedge fund industry, seeding and emerging managers have seen above-average returns and this is expected to continue. Institutional investors are increasingly seeking to make investments in emerging hedge funds who have delivered superior alpha compared with large hedge funds. In addition to alpha generation, investors are attracted to the revenue share associated with providing seed capital to newly established managers.

Total hedge fund industry assets under management at September 2012 were $2.2 trillion, in excess of the 2007 peak of $2.0 trillion. Institutional investors have continued to drive growth and 80% of institutions expect to increase portfolio allocations to the asset class. Total hedge fund assets are forecast to rise to $3.5 trillion over the next several years.

INVESTMENT ACTIVITY

We have maintained our disciplined approach towards investment activity during the first half of FY13, mindful of the continued downside risks to global economic growth. Rigorous evaluation combined with creative sourcing is more necessary than ever to find those investments with a controlled and well managed risk profile that we believe can ultimately meet the requirements of our investors for superior risk-adjusted returns.

Corporate investment – North America & Europe. We continued to target European and North American businesses in the middle market with strong cash flow characteristics that are leaders in their industries. Specifically in Europe we have been focusing on businesses that have international growth prospects outside the Eurozone. We also continued to look for opportunities to support the growth of businesses in our portfolio through add-on acquisitions. We believe that our sector specialization provides us with insight that enables us to define superior risk/return profiles with particular precision. Investcorp deployed $246 million of capital in this sector during H1 FY13.

Corporate investment – Technology. We have continued to look for opportunities to make control investments in profitable and growing small to medium-sized European and North American technology companies through growth buyouts, corporate carve outs or take-private transactions. We also supported growth through acquisitions by businesses in our current portfolio. In this sector Investcorp deployed $20 million during H1 FY13.

Corporate investment – MENA. We have evaluated minority and majority investment opportunities in the MENA region, with particular focus on opportunities in Saudi Arabia, the United Arab Emirates, Kuwait and Turkey. We have looked for companies with proven business models and growth prospects in defensive industries such as transportation and logistics, and basic materials. We also worked in partnership with the management teams of our portfolio companies to improve operations, raise debt financing, optimize balance sheets and evaluate and execute add-on acquisitions to create value in these portfolio companies. In this sector Investcorp's Gulf Opportunity Fund I deployed $69 million during H1 FY13.

Real estate investment. Strong transaction volume in US commercial real estate has helped us originate both equity and debt investments. We have focused on assets generating strong cash flow yields, a strategy that is well suited to the gradually stabilizing market. In equity investment, we have targeted high quality and stable assets where these were attractively priced. In debt investment, we investigated opportunities to originate or acquire mezzanine debt and subordinated debt that could deliver attractive risk-adjusted returns. Overall, in this asset-class Investcorp deployed $126 million of acquisition capital during H1 FY13.

Investments

In September 2012, the Investcorp Gulf Opportunity Fund I acquired a 30% stake in **Orka Group**, one of Turkey's leading and fastest growing menswear retailers. Orka Group sells its Damat, Tween and D'S Damat-branded clothing in more than 250 stores in 40 different countries worldwide, including through franchises.

In October 2012, the Investcorp Gulf Opportunity Fund I acquired a significant minority stake in **Automak Automotive Company**, the leading independent vehicle leasing and rental company in Kuwait. Founded in 2002, Automak is one of the few major players in the vehicle rental and fleet leasing business with a market share of more than 15% in Kuwait.

In November 2012, we acquired **Georg Jensen**, Scandinavia's leading luxury brand. Headquartered in Copenhagen, Denmark, and founded in 1908, Georg Jensen designs, hand-manufactures and sells exclusive products ranging from high-ticket silverware to jewelry, watches and high-end home ware. This direct investment was partially placed with clients during H1 FY13 and full placement is expected during Q3 FY13

In November 2012, we acquired **FishNet Security**, North America's leading provider of IT security solutions and services. Headquartered in Kansas and founded in 1996, FishNet is exclusively focused on providing best-of-breed IT security solutions and services to more than 3,100 customers, which include large enterprises, government entities, and small and medium sized businesses. This investment was partially funded by a $20 million investment by the Investcorp Technology Partners III Fund and the balance will be offered to clients in Q3 FY13.

A number of companies in our corporate investment portfolio made add-on acquisitions to grow value as part of their investment strategies. Such add-on acquisitions enable the companies to grow revenues by developing market share, by entering new markets and geographies, or by extending services or product range.

In August 2012, **Ceme** closed on the acquisition of Maflex. In September 2012, **OpSec Security** acquired Holographic Security Business and **TDX Group** acquired Sawfish. In October 2012, **Berlin Packaging** acquired US Container Corporation. Also in October 2012, an Investcorp Gulf Opportunity Fund I portfolio company, **Gulf Cryo**, signed the acquisition of Industrial Gases Company S.A.E., an Egyptian packaged gas company and in November 2012, it acquired Al Wid Trading LLC, an industrial gases and LPG business in Oman. No additional equity from Investcorp or its investors was required to complete these add-on acquisitions.

In real estate, Investcorp made ten new investments during H1 FY13. In September 2012, we made a $9 million investment in an office property located in Dallas, Texas and a $12 million investment in a portfolio of three office properties in North Carolina as well as originating an $11 million mezzanine loan secured by two office properties in Colorado. These three investments were combined to form the **2012 Office Properties Portfolio** which was fully placed with clients during H1 FY13. In November 2012, we made an investment of $45 million in five multi-family apartment properties in Texas. The properties were combined to form the Shari'ah compliant **Texas Apartment Portfolio II** which was also fully placed with clients during H1 FY13. In December 2012, we made two investments totaling $50 million across 16 office and medical properties in Texas and Illinois. The properties were combined to form another Shari'ah compliant portfolio, the **2013 Office Properties Portfolio**, and will be placed with clients in H2 FY13.

In hedge funds, we announced a new seeding partnership with **Kingsguard Advisors**, LP. Kingsguard is a New York-based investment firm founded by former Goldman Sachs senior executives, Rishi Chadda and Cyrus Pouraghabagher, who have a combined 28 years of experience at Goldman Sachs, where they focused extensively as principal risk takers across liquid fixed income products, mortgages and structured credit markets. Kingsguard launched operations in November 2012. Investcorp provided Kingsguard with an initial investment and will provide risk oversight, marketing, and operational support. Kingsguard will focus on capitalizing on market opportunities across the entire fixed income spectrum including the rates, volatility, credit, and mortgage markets.

REALIZATION ACTIVITY

There were a number of profitable exits during H1 FY13. Total realization proceeds and other distributions to Investcorp and its clients were $1.1 billion.

In October 2012, Investcorp's corporate investment – technology portfolio company **FleetMatics**, a leading global provider of fleet management solutions for commercial fleet vehicles, was partially exited as it priced its initial public offering of shares of common stock and began trading on the New York Stock Exchange. Also in October 2012, our second technology fund, Investcorp Technology Ventures II, sold its investment in **Wells-CTI** to Sensanta Technologies.

In November 2012, we sold **FleetPride**, North America's largest distributor of heavy duty truck and trailer parts, to TPG for more than $1 billion. FleetPride was established in 1999 and acquired by Investcorp along with a minority partner, Ridgemont Equity Partners, in 2006. Since then, FleetPride has grown by 93 additional branches, building a presence in 45 US states. During our period of ownership, Investcorp also supported 31 add-on acquisitions, strengthening the company's cross-country supply chain with total acquired sales of more than $270 million.

In December 2012, we sold **CCC Information Services** to Leonard Green & Partners. CCC is the leading US provider of integrated software, database information and workflow management systems which enable customers in the automobile claims industry to manage the automobile claim, repair and replacement processes. The company's customers include more than 350 insurance companies and 21,000 auto body repair facilities across the United States.

In H1 FY13, we closed the sales of the **Seelbach Hilton Hotel** in Louisville, Kentucky (Diversified VIII portfolio) and a 50% interest in the **Texas Retail Portfolio** (Retail IV and Diversified VI portfolios).

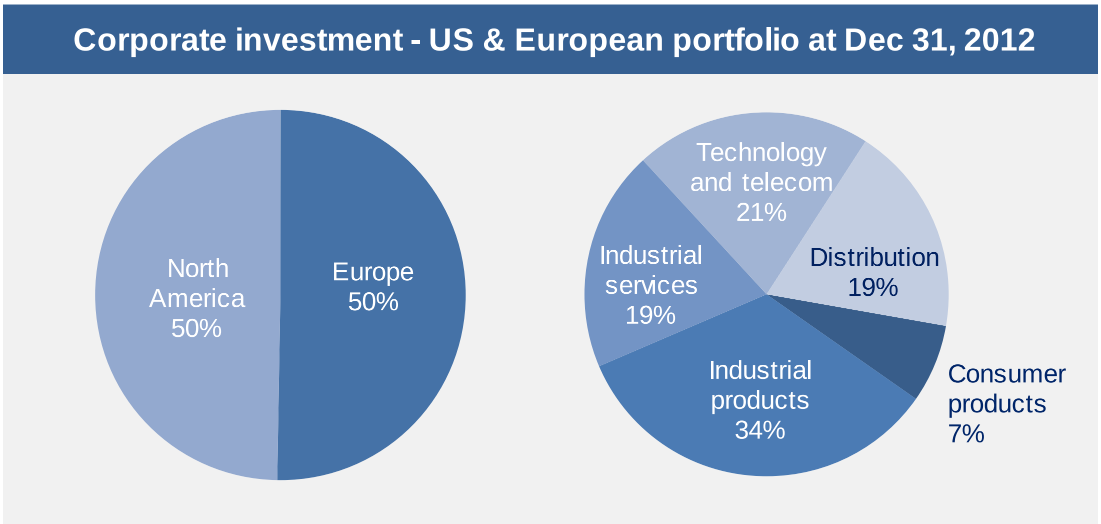
PORTFOLIO COMMENTARY

Corporate investment

Corporate investment – North America & Europe. At December 31, 2012 the carrying value of Investcorp's balance sheet co-investment in corporate investment – North America & Europe was $911.7 million (19 companies) compared with $1,027.2 million at June 30, 2012 (20 companies).

The total co-investment amount represents 53% of total balance sheet co-investments at December 31, 2012, compared with 57% at June 30, 2012. Please refer to the table in Note 8(a) of the Condensed Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the December 31, 2012 and June 30, 2012 carrying values by vintage years.

The portfolio is balanced between North America and Europe and is well diversified by sector.



Only two investments represent more than 10% of total equity at December 31, 2012.

Portfolio company	Carrying value Dec 31, 2012 ($m)	% of total portfolio	% of total equity
TelePacific	142.1	16%	14%
Berlin Packaging	127.6	14%	13%
Two largest co-investments >10% total equity	269.8	30%	27%
Remaining co-investments	642.0	70%	64%
Total	**911.7**	**100%**	**91%**

While most of our portfolio companies increased revenues and EBITDA during 2012, overall growth was slightly muted due to continued uncertainty in the general macro-economic environment. Aggregate revenue for the portfolio at December 31, 2012 was approximately $9.4 billion compared to almost $9 billion in the prior year, or 4.3% higher on a constant currency basis. Aggregate EBITDA for the portfolio for 2012 was approximately $1.03 billion, an increase of 3.3% over 2011 on a constant currency basis. These numbers exclude the two most recent exits, FleetPride and CCC, whose combined EBITDA at the time of sale was close to $200 million per annum; and include the five investments acquired in calendar 2012 (GL Education, Esmalglass, Archway, Georg Jensen and FishNet). Fourteen portfolio companies experienced year-on-year EBITDA growth, with seven companies growing more than 10% compared to last year. Five companies experienced EBITDA declines, affected by challenging growth dynamics in Europe. Portfolio company leverage remained low and the average net debt across the portfolio is relatively modest at 4.3x EBITDA as of December 2012, with only three companies levered above 5.0x EBITDA.

Overall, we believe the portfolio continues to be well positioned and that our portfolio companies have performed relatively well during this challenging period as a result of the active management characteristic of our value enhancement driven approach to corporate investing.

More detailed information on all companies in the North American and European corporate investment portfolio can be found in the Portfolio Review section.

Corporate investment – Technology. The carrying value of Investcorp's balance sheet co-investment exposure in this sector was $89.9 million at December 31, 2012.

Corporate investment - technology funds	Fund I	Fund II	Fund III
Fund size	$ 230 million	$ 300 million	$ 500 million
Vintage year	2001	2005	2008
% of commitments drawn	100%	99%	64%
Investcorp commitment	$ 43 million	$ 24 million	$ 61 million
No. of investments	24	12	8
No. of exits *	22	8	1
Returned capital	$ 206 million	$ 42 million	$ 16 million
DPI (Distributions over paid-in capital)	**90%**	**14%**	**5%**

* Includes partial exits / write offs

In corporate investment - technology, Investcorp's clients are offered participation on a portfolio basis through dedicated technology funds in which Investcorp is a co-investor, as well as on a deal-by-deal basis in some situations. Investcorp has raised three funds. The $230 million Investcorp Technology Ventures Fund I was raised in 2001. It is fully invested and in the final stages of being harvested. The $300 million Investcorp Technology Ventures Fund II was raised in 2005 and is fully invested, with $297 million deployed and $3 million held in reserve for follow on investments to support the existing portfolio companies. The $500 million Investcorp Technology Partners Fund III was raised in 2008 and is currently 64% deployed.

Corporate investment – MENA. The carrying value of Investcorp's balance sheet co-investment in this sector at December 31, 2012, was $29.7 million. Investcorp's clients participate on a portfolio basis through a dedicated fund in which Investcorp is a co-investor. The Investcorp Gulf Opportunity Fund I has $929 million in capital commitments with 63% of its available capital invested.

Hedge funds

Performance

During H1 FY13, Investcorp's hedge funds co-investment portfolio delivered unlevered absolute returns of 1.6%. The portfolio underperformed the industry benchmark, the HFRI Fund of Funds Composite Index, which produced a return of 3.8% during the same period. The underperformance was driven by Investcorp's higher allocation to portfolio insurance managers that trailed the market recovery that occurred in Q4 2012. With the exception of macro strategies, the other investment strategies all produced very good returns during this period as outlined below (returns are annualized).

Investment strategy	Returns (annualized)
Distressed/Event Driven	5.6%
Relative Value Strategies	9.7%
Macro Strategies	2.1%
Long / Short Equities	5.4%

Hedge funds experienced an improving environment during the last six months. Fears of a European sovereign debt crisis and the associated tail risk have subsided, as stability came back to the region when the European Central Bank (ECB) introduced Long Term Refinancing Operations which increased liquidity in the market. In September 2012, the ECB announced that it was prepared to buy unlimited amounts of government bonds, which would lower borrowing costs for troubled countries across the Eurozone. That same month, the US Federal Reserve announced that it would maintain near-zero short-term interest rates into late 2015. Further, it increased the level of bond-buying to $85 billion a month. Additionally, the correlation levels amongst asset classes moved lower, and security selection started working again. All of these changes motivated hedge fund managers to take on more risk that, in turn, helped them deliver better returns. However, the improving environment negatively affected portfolio insurance managers and this detracted from overall portfolio performance.

Liquidity

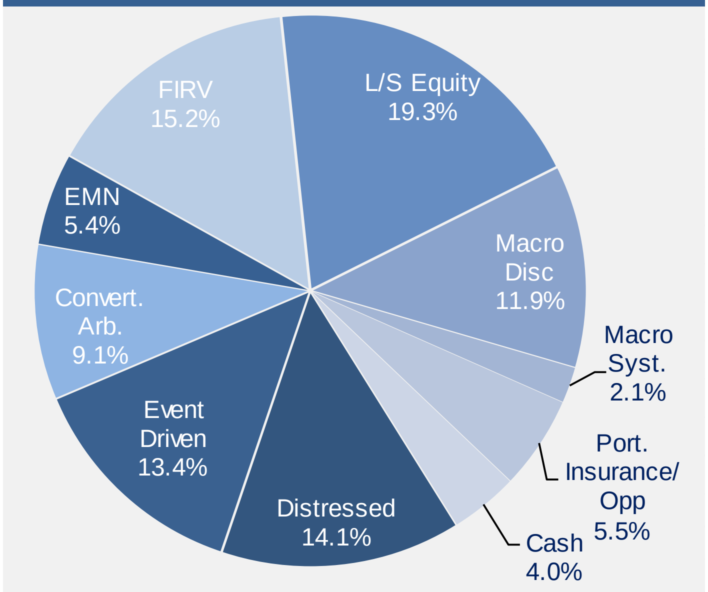
Time period	Cumulative % available for monetization
Within 1 month	18%
Within 3 months	54%
Within 6 months	68%
Within 12 months	78%
Over 12 months	100%

Investcorp's hedge funds co-investment is constructed so that a significant part of it is available for monetization in a three to six-month window. Client portfolios are also constructed with similar guidelines so that during a stressed period, the liquidity needs of clients and Investcorp are both satisfied. At December 31, 2012, approximately 54% of Investcorp's hedge funds co-investment was contractually available for monetization within a three-month window. The ability to redeem from our hedge fund co-investments supports Investcorp's overall liquidity contingency planning. A large portion of the co-investment portfolio is invested through separate accounts, which also reduces gating risk.

Portfolio exposures

Investcorp's balance sheet hedge funds co-investment is invested in external hedge fund managers, including five managers on Investcorp's single manager platform. Total gross exposure was $628 million at December 31, 2012, of which $221 million was invested in the five single managers. $249 million of the gross investment was financed through non-recourse notes, giving a net balance sheet investment at December 31, 2012 of $379 million. While Investcorp's exposure is directed through several different vehicles, the portfolio is managed on a look-through basis at the strategy level, in order to keep the portfolio's risk-return profile and tactical asset allocations consistent with the views of the investment team. Investcorp adopts a top-down view of the investment strategies when designing its hedge fund portfolio.

Strategy allocations of Investcorp HF portfolio



During H1 FY13, Investcorp decreased its allocation to Portfolio Insurance, following the reduction of tail risks associated with a European sovereign debt crisis. Managers focusing on a European debt crisis were replaced with traditional short sellers. Investcorp also added a new manager to its single manager platform.

Portfolio outlook and positioning

Strategy	Outlook
Long/Short Equities	Modestly Positive
Event Driven	Modestly Positive
Relative Value Strategies	Modestly Positive
Macro Strategies	Neutral
Distressed	Neutral

Given the improving environment for hedge funds, we expect hedge funds to produce better returns in the next six months than in the last few years. Interest rates are expected to remain at historically low levels and this will keep the total return from hedge funds below the long term average.

We are modestly positive on equity oriented strategies such as long/short equities and event driven, given the improving environment, where growth has been picking up, tail risks are contained and the corporate earnings picture has started to improve. We retain our modestly positive view on relative value strategies but continue to maintain a neutral view on macro and distressed strategies. Portfolio insurance has reverted back to a neutral allocation. The portfolio has a higher than normal allocation to structured credit, accomplished through an increased allocation to this segment in two of our managed accounts and an allocation to one of our single managers.

We are positioning the portfolio towards more emerging managers who have empirically been shown to be better alpha generators than established managers. We expect more than half of our portfolio to be invested with emerging managers. We are also negotiating better fee terms with underlying managers that should further improve net returns.

Overall, our outlook for hedge funds and our return expectations for Investcorp's balance sheet co-investment are positive.

Real estate investment

At December 31, 2012, Investcorp's real estate balance sheet co-investments, including the recently acquired 2013 Office Properties Portfolio that was placed in early January, totaled $208.7 million compared with $154.5 million at June 30, 2012. This consisted of $117.9 million of marked-to-market equity investments, $46.1 million of underwriting exposure to a new portfolio acquired in December 2012 and $44.7 million of debt investments, held at net amortized cost inclusive of any provisions for impairment. The total real estate co-investment amount represents 12% of total balance sheet co-investments at December 31, 2012, compared with 9% at June 30, 2012.

Carrying values for Investcorp's real estate co-investment by vintage year are shown below. Carrying values reflect a reduction in valuation for some legacy investments as well as the impact of exits and placements during the period. The carrying value of vintage FY13 co-investments represents new acquisitions, net of placements, during H1 FY13 and mainly consists of an underwritten portfolio pending placement with clients.

Investcorp co-investments by year ($m)	Carrying values as of Dec 31, 2012	Carrying values as of Jun 30, 2012	Change H/(L)
Vintage FY05	1.4	1.7	(0.4)
Vintage FY06	15.4	20.3	(5.0)
Vintage FY07	33.1	31.4	1.7
Vintage FY08	32.8	31.5	1.3
Vintage FY10	1.1	1.1	0.0
Vintage FY11	11.6	10.8	0.8
Vintage FY12	2.4	3.1	(0.7)
Vintage FY13	50.2	-	50.2
Others	60.8	54.6	6.3
Total	**208.7**	**154.5**	**54.2**

Overall valuations on the portfolio have stabilized as the economy and operating fundamentals have improved. Mark downs on the legacy (pre-2009) portfolio were limited to a small number of cases and were asset-specific in nature.

Investcorp currently has 26 active real estate investment portfolios, including its three debt funds. At December 31, 2012, seventeen of these were on or ahead of plan. The remaining nine, which are pre-2009 portfolios, rated behind plan, are generally those holding hotel, condominium developments and offices in regions where the economic environment has been generally subdued. Overall, the strategy for these portfolios is to position them for medium to long term ownership in stable capital structures with modest or no additional capital investment requirements.

Investcorp's real estate co-investment portfolio is well diversified. The largest single exposure of $47.5 million relates to the portfolio being assembled for placement with clients in the first part of calendar year 2013. All other exposures each represent less than 10% of the portfolio and 2% of total shareholder equity on an individual basis.

Investcorp has continued to focus on income-producing commercial real estate with a broad diversification across US regions and property sectors and no meaningful exposure to the US 'for sale' residential housing sector.

Overall, Investcorp has concentrated on preserving and regenerating value in current real estate assets through aggressive management and strategic capital investment. Our attention remains on optimizing cash flow and capital reserve management, tenant retention and expense reduction programs to sustain or improve operating performance.

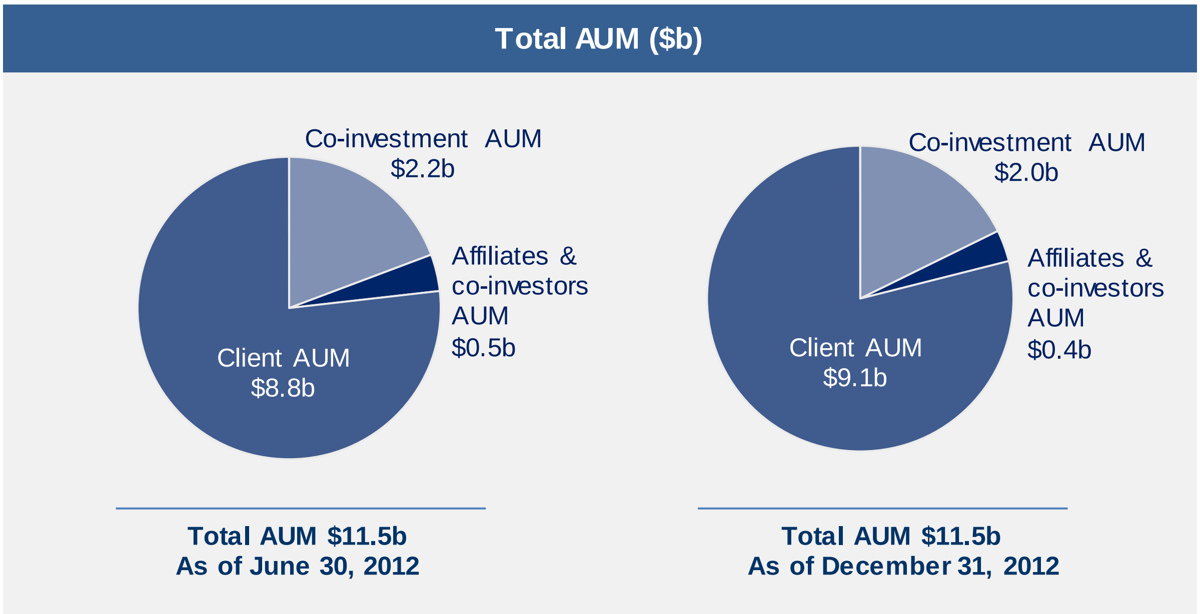
In addition to the deal-by-deal offering of equity and debt investments in US commercial real estate, Investcorp's clients have the opportunity to make debt investments through a fund format. We have raised three funds to invest in and originate commercial real estate debt, in which Investcorp is a co-investor. The $108 million US Mezzanine Fund I, created in FY07 and the $176 million Investcorp Real Estate Credit Fund, created in FY08, are both fully deployed. The third real estate debt fund had its first close in May 2012 at $100 million.

Real estate portfolio

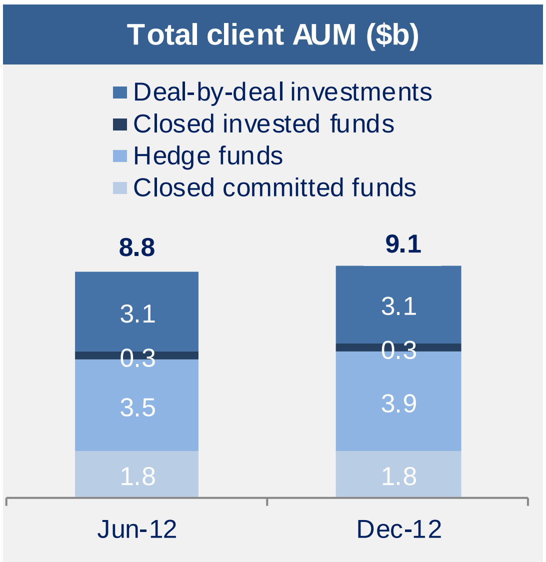
Investcorp co-investment by year ($m)	Properties # original / current	Sector	Geographic location
Commercial IV	12 / 2	Office	E
Vintage FY 05			
Commercial V	3 / 1	Retail	SE
Retail III	8 / 8	Retail	MW
Retail IV	29 / 23	Retail	SW
Opportunity II	3 / 1	Opportunistic	W
Opportunity III	3 / 2	Opportunistic	E
Vintage FY 06			
Diversified VI	2 / 2	Retail / Hotel	SE / SW / MW
Diversified VII	4 / 4	Industrial / Office / Hotel	E / MW
Hotel	9 / 9	Hotel	E / SE / SW / MW
Bravern	1 / 1	Opportunistic	W
Vintage FY 07			
Diversified VIII	5 / 3	Office / Hotel	W / SW / MW
Weststate	1 / 1	Opportunistic	W
Best Western	1 / 1	Hotel	E
Vintage FY 08			
Retail V	1 / 1	Retail	SW
Vintage FY 10			
Commercial VI	3 / 3	Retail & Office	E / SE / SW
Diversified IX	2 / 2	Office / Hotel	W
Vintage FY 11			
Diversified X	3 / 3	Residential / Office / Medical	SE / W
Northern California	14 / 14	Diversified	W
Southland & Arundel Mill Mezz	0 / 0	Retail / Hotel	SE / E
Texas Apartment	5 / 5	Residential	SW
Vintage FY 12			
Office 2012 Portfolio	4 / 4	Office	SE / W / SW
Texas Apartment II	5 / 5	Residential	SW
2013 Office Properties	16 / 16	Office	MW / SW
Vintage FY 13			
Total	**111**		
* W=West, E=East, SW =Southwest, SE=Southeast, MW=Midwest			

FUNDRAISING

Assets under management (AUM)



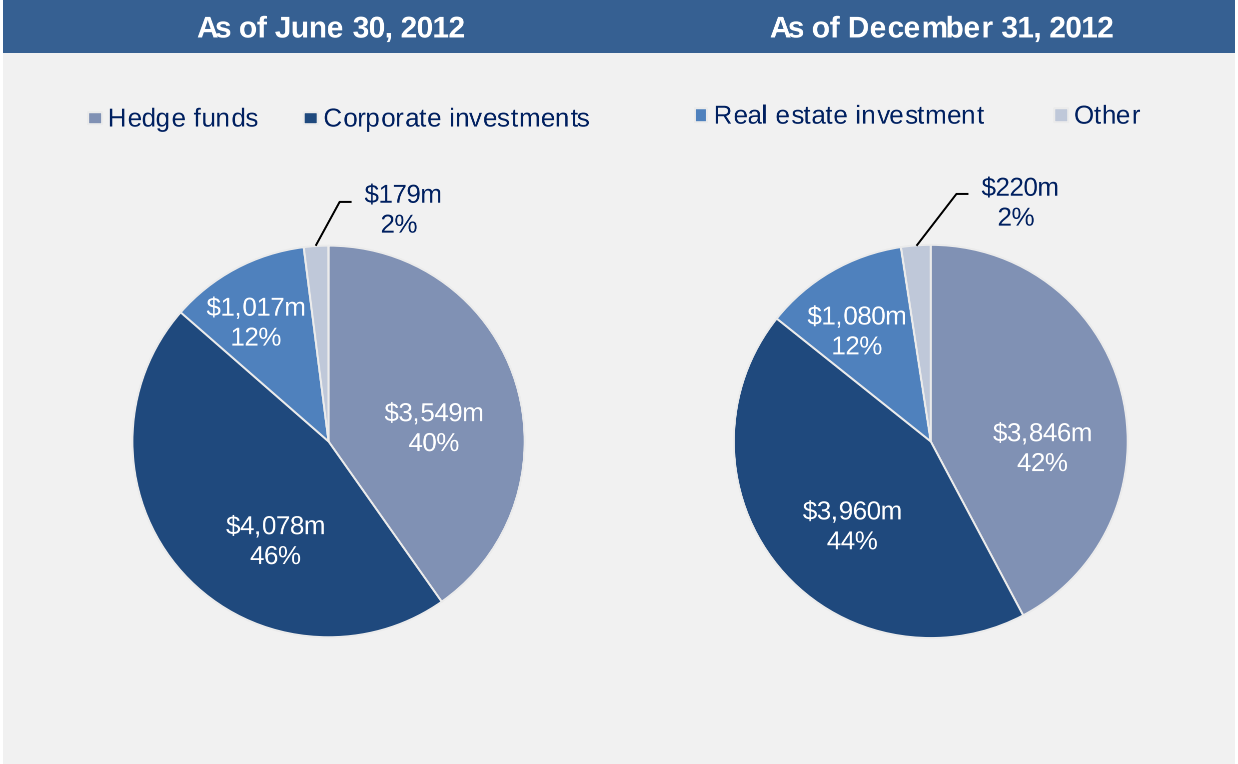
Total AUM remained unchanged at $11.5 billion at December 31, 2012.



Total client AUM increased slightly to $9.1 billion at December 31, 2012 from $8.8 billion at June 30, 2012. The increase was largely due to strong fundraising activity, offset by the exit activity during the period, particularly in corporate investments. Hedge funds client AUM increased slightly over the six month period.

Corporate investment and hedge funds continue to be the dominant components of client AUM. Corporate investment and hedge funds represent 44% and 42% of client AUM, respectively. Corporate investment's share decreased from 46% last year while hedge funds' share increased from 40% last year.

Client AUM ($m)



Key AUM and fundraising performance indicators (by asset class)

Corporate investment:

($m)	H1 FY13	H1 FY12	% Change B/(W)
Client AUM			
Closed-end committed funds	1,753	1,753	-
Deal-by-deal investments	1,994	2,016	(1%)
Closed-end invested funds	213	213	0%
Total client AUM - at period end	**3,960**	**3,982**	**(1%)**
Average client AUM	4,019	3,969	1%
Equity deployed*	335	205	63%
Deal-by-deal placement	204	120	70%

*Includes Orka and Automak, which were funded in Q1 FY13, although acquisition fees were accrued in H2 FY12

Hedge funds:

($m)	H1 FY13	H1 FY12	% Change B/(W)
Client AUM			
Fund of funds*	2,070	2,366	(13%)
Structured and levered products	104	164	(36%)
Single managers	1,672	1,109	51%
Total client AUM - at period end	**3,846**	**3,639**	**6%**
Average total client AUM	3,761	3,651	3%

*Comprises customized accounts and comingled funds

Real estate investment:

($m)	H1 FY13	H1 FY12	% Change B/(W)
Client AUM			
Closed funds (Mezzanine)	173	113	53%
Deal-by-deal investments	907	774	17%
Total client AUM - at period end	**1,080**	**887**	**22%**
Average client AUM	1,049	925	13%
Capital deployed	126	95	33%
Deal-by-deal placement	73	39	87%

Client placement

We continued to provide alternative investment products and solutions to clients through our range of corporate investment, real estate investment and hedge fund products. These are placed predominantly with private investors in the six GCC countries, and also with institutional investors in the GCC and internationally. In particular, we market our hedge fund products to institutions globally.

The first half of FY13 saw strong fundraising momentum and we raised a total of $793 million in the period. This included completion of the placement of Esmalglass and GL Education carried over from the previous fiscal year, the partial placement of Archway and Georg Jensen and the full placement of two real estate portfolios, the 2012 Office Properties Portfolio and the Texas Apartment II Portfolio.

Corporate investment deal-by-deal placement was $204 million and real estate raised $73 million. New subscriptions into hedge funds from institutional investors were $516 million.

We continued to provide our hallmark high touch service to our Gulf clients. Clients are serviced by a team of 15 relationship managers, two product specialists and six client-service professionals. Our history, commitment and track record in the Gulf region means we are particularly trusted by Gulf investors to provide them with unique non-traditional investment opportunities and services that are suitable for their risk-return preferences.

Closed-end funds

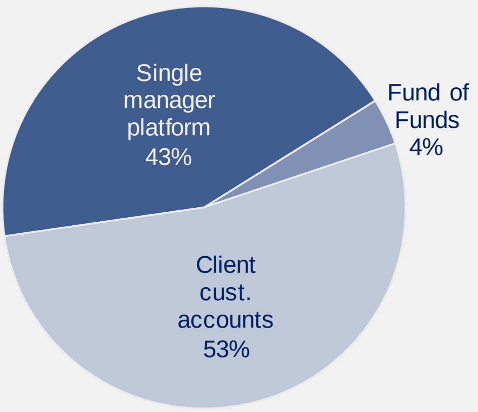
Investcorp's third real estate debt fund achieved its first close in May 2012 at $100 million. In July 2012, the fund made its first investment of $30 million in a mezzanine debt position secured by the Paramount Hotel, New York. We expect to have a second close of the fund in Q4 FY13.

The foregoing information about closed-end funds is being provided to satisfy the requirements of the Central Bank of Bahrain. The provision of the foregoing information does not constitute an offer to sell or a solicitation of an offer to buy securities in the United States or any other jurisdiction. Interests in the foregoing funds have not been registered under the US Securities Act of 1933, as amended, or any US state securities laws, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

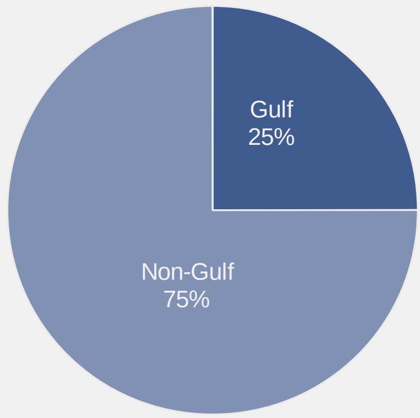
Open-end hedge funds

At December 31, 2012, hedge fund assets under management were $4.5 billion. $3.9 billion were client assets and $0.6 billion were Investcorp balance sheet co-investments, on a gross basis.

By product



By region



75% of client assets were from US institutional investors and 25% from Gulf private and institutional investors. 53% of client hedge fund assets are invested through customized accounts. The percentage of assets in fund of fund products continues to decrease, from 6% as of June 30, 2012 to 4% as of December 31, 2012. Assets under management with single managers increased and stand at 43%, reflecting an increasing trend towards this product. Customized accounts and single managers are an important component of our strategy to grow hedge fund assets under management.

At December 31, 2012, more than 90% of hedge fund assets under management were managed for a range of institutional clients including pension funds, insurance companies, endowments & foundations, and fund of hedge funds. This high level of institutional clients provides a more stable AUM base that tends to be sticky through market cycles.

PORTFOLIO REVIEW: CORPORATE INVESTMENT – NORTH AMERICA & EUROPE

FishNet Security, headquartered in Kansas and founded in 1996, is the largest pure-play IT security solutions provider in North America. The company is exclusively focused on providing best-of-breed IT security solutions and services to more than 3,100 customers, which include large enterprises, government entities, and small and medium sized businesses. FishNet combines long term relationships with over 100 technology vendors and extensive professional services capabilities to deliver a comprehensive suite of security solutions, including more than 60 security services that address complex, ever-evolving IT security threats. The company has established a leading brand name in the market and is widely regarded as a trusted security advisor that delivers excellent customer service and value.

The acquisition of FishNet represents an opportunity to take advantage of the high growth in the IT security market given its (i) leading position in a highly fragmented industry with demonstrated ability to take market share; (ii) multiple growth opportunities, both domestic and international; (iii) ability to continue to complete strategic add-on acquisitions; and (iv) strong and motivated management team that has consistently delivered growth. The acquisition closed in November 2012.

Georg Jensen designs, hand-manufactures and sells exclusive products ranging from high-ticket silverware to jewelry, watches and high-end homeware. The company, headquartered in Copenhagen, Denmark, and founded in 1904, has expanded internationally and now derives the majority of its revenue outside of Scandinavia. The Asia Pacific region currently accounts for most of Georg Jensen's 97 retail store portfolio and over 40% of its sales.

Georg Jensen is a highly-recognized brand with a strong craftsmanship heritage spanning over 100 years and a portfolio of iconic products. We have successfully teamed up with one of the most successful and respected luxury entrepreneurs as our partner, David Chu, who founded Nautica and helped develop Tumi to global success, and who we expect to be instrumental in executing our Asian-focused growth plan as well as driving new product designs. David will assume the role of Chief Creative Officer as well as co-Chairman of the board. The outlook for luxury goods is positive and forecasted to grow by approximately 10% per year, driven by demand from emerging markets. The acquisition closed in November 2012.

Esmalglass is one of five global producers serving the global ceramics intermediate products industry. Established in 1978 in Villarreal, Spain, Esmalglass produces ceramic glazes (vitreous layers applied to the surface of tiles); ceramic colors (compounds used to color the body or the surface of tiles); and inkjet inks (an innovative and rapidly growing technology to decorate tile surfaces).

The company has a strong market position in all segments of the growing ceramics intermediate products industry, with a particular stronghold in colors, the highest value-added product segment. Esmalglass is the global leader in inkjet inks, the newest technology used to decorate ceramic colors through digital printing. This technology is expected to grow 30%+ per year over the next coming years and with 35% global market share in inkjet inks, Esmalglass should be well positioned to capitalize on this growing trend. Esmalglass serves more than 450 customers in 69 countries worldwide, complementing its highest quality product offering with customer-oriented service and renowned technical assistance.

The company generates more than half of its sales from emerging market economies including Brazil (25% of 2011 sales), the Middle East (10% of 2011 sales) and China (5% of 2011 sales). Its global activities are supported by three manufacturing plants in Spain and Brazil and mixing plants in Portugal, Italy, Russia and Indonesia. The acquisition closed in July 2012.

Archway is North America's leading outsourcer of marketing fulfilment services. Headquartered in Minnesota, Archway distributes and fulfils point-of-purchase marketing-related materials for customers with broadly distributed locations in a manner that provides significant efficiencies for its customers with high volumes of critical point-of-purchase, not-for-sale marketing materials.

Archway's customers (such as Target, AT&T, Pepsi and Pfizer) are diverse and blue chip, and span ten different end markets including retail, consumer products, technology and communications, food and beverage, fast food restaurants, pharmaceutical, and prepaid cards. With 24 locations across 14 metropolitan areas, Archway is North America's only scale player in the highly fragmented, $2-3 billion outsourced marketing fulfilment industry. The company offers three core services, distribution/fulfilment of not-for-sale marketing materials (65% of revenues), transportation management services (23%) and materials management services (12%). The acquisition closed in July 2012.

GL Education is the leading UK provider of non-regulated pupil and school assessment solutions for primary and secondary schools. Headquartered in London, UK and founded in 1981, the company provides assessment products and services used by teachers to measure students' core abilities and to take critical decisions upon the direction and nature of their learning path. The group comprises two business units, GL Assessment and GL Performance, which together deliver to more than 15,000 schools the tools they require to raise standards in children's education.

GL Assessment focuses on providing a complete picture of a pupil's abilities, motivations, strengths, anxieties, school-based relationships and future learning behaviors via its cognitive ability, subject/curriculum based and psychological assessment products. GL Performance complements the group's assessment solutions offering, supporting schools in their performance management through the provision of resources such as school self-evaluation and stakeholder surveys, data interpretation and analysis services, and other professional development support. The acquisition closed in March 2012.

Sur La Table is a specialty retailer of culinary merchandise and a leading provider of non-degree culinary courses in North America. Offering a broad selection of the best culinary brands and an assortment of innovative kitchenware products, Sur La Table currently operates 105 stores across the United States with a widely distributed catalog and a premium online platform. The company provides items for cooking and entertaining and has a knowledgeable staff that provides high level service in its stores. Since acquisition, Sur La Table has almost doubled the amount of cooking class locations offered in 42 stores serving well over 100,000 customers annually. Management believes these cooking classes build customer relationships and solidifies its reputation as an authority in the kitchenware segment. In 2012, the company also doubled the size of its gift registry.

The last decade has seen an explosion in the amount of media programming dedicated to cooking as consumers have shown a keen interest in cooking and entertaining at home. Celebrity chefs and other cooking media have generated significant awareness of cooking and reinforced mainstream interest. As a result of these trends and the continued shift away from department stores to specialty stores, the $3 billion US specialty kitchenware industry is expected to outpace the broader $14 billion US kitchenware market and grow at 3%-6% per annum over the next four years. This is driven by the cooking enthusiast who tends to be a more affluent consumer and represents the majority of the kitchenware spend in the US. Sur La Table will continue to target this highly desirable customer base with the expectation of continuing to benefit from these trends.

Sur La Table has built a multi-channel business in which each channel is profitable on a standalone basis. Plans for growth include the addition of stores in existing and new markets; the expansion of the direct sales channel; continuing to grow the newly re-launched gift registry; continuing refinement of the operating model as the company leverages its established infrastructure; driving same-store sales via proven initiatives; and expansion of the ever-evolving culinary program. The acquisition closed in July 2011.

Veritext is a leading national provider of deposition and litigation support services to law firms, Fortune 500 corporations and regulatory agencies in the United States. It operates in the legal services industry through 30 locations across six geographic regions in the largest legal markets in the United States. The company's core product is the conversion of a witness or expert's spoken testimony under oath into a certified written transcript. This is a critical service for a lawyer or general counsel and is used to build the fact base of a case. Veritext's services can be used by both the plaintiffs and defendants in nearly every litigation proceeding. The company also provides other value-added services that capture additional information during the deposition and allow clients to manage the information more efficiently.

Since acquisition, we have assembled a strong management team that is potentially the most talented and experienced management team in the depositions services space. The most recent add-on investment, in Sarnoff Court Reporters, a traditional court reporting firm focused on high-end litigation, has proven to be a very attractive and strategic acquisition, moving Veritext to be the number one competitor in its industry's two largest markets of New York and California. The revenues from Sarnoff have offset a decline in large cases seen in calendar year 2012. In the future, the company plans to open various greenfield locations, assess other litigation support markets and continue to gain market share. The acquisition closed in July 2010.

N&W is the only pan-European manufacturer of beverage and snack food vending machines. It offers a full product range in a market otherwise composed of smaller, regional participants. N&W is over four times larger than its nearest competitor, and operates three state-of-the-art production facilities in Italy and China.

Since the summer of 2011, the uncertainty in the macro-economic environment has led to a slowdown in demand across all geographies and product categories. Vending machine operators turned their attention to refurbishing - rather than replacing - existing vending machines. Gross margins have come under pressure as the customer mix has shifted towards key accounts, commanding higher discounts and more complex products. In January 2012, the company's CEO retired and was replaced by the existing CFO. The hand-over of responsibilities was managed in an expedited manner and completed within three months. The retiring CEO continues to be involved in the company as Chairman, facilitating expansion in core international markets. The newly appointed CEO has reorganized the top management structure and has also further reorganized internal reporting and functional management lines. He is now focused on implementing the next phase of the operational efficiency measures, Project “Efrem”, and reinforcing international management to support the international growth strategy.

Project Efrem is expected to drive further operational efficiency measures such as pricing optimization, product range rationalization and increased low cost country sourcing for pre-assembly activities. In addition, management is looking at an international expansion strategy that will focus on Germany, the UK, Eastern Europe, South America and Asia. N&W has a leadership position in its market and demand for new machines in the core European markets is expected to rebound when vending machine operators regain confidence. The acquisition closed in November 2008.

CEME is a leading manufacturer of fluid control components for household and industrial appliances such as espresso machines, steam ironing systems and gas boilers. Its main clients are well-established European manufacturers, but it is diversifying its customer base by expanding its distribution network in China, the Far East and North America.

In 2011, the company benefited from positive end-market dynamics such as strong espresso/capsule growth and generally good retail performance by coffee and steam appliances in most European countries, as well as from an increasing demand from the US and emerging markets. Two thirds of the company’s top line growth came from key customer projects outperforming expectations. In 2012, the company experienced mixed end market dynamics in Europe with weaker retail performance of small appliances, although coffee makers and steam stations continued to perform strongly in most countries.

In August 2012, Ceme acquired a small supplier, Maflex, for €1 million. Maflex performs the automated insertion of electrical components into the bobbins used in the manufacturing of Ceme’s oscillating piston pumps for coffee machines. This acquisition has given Ceme increased control over all the steps required for the manufacture of these pumps.

The company expects medium-term growth trends in its end markets to remain strong, as espresso and pad-filter machines take share from traditional filter coffee machines, and steam generators take share from traditional irons. In addition, projects with key customers are expected to support top line development for the future. The acquisition closed in July 2008.

Asiakastieto is the leader in the Finnish credit information market and is the dominant personal credit information database owner with approximately 74% market share. Asiakastieto’s business is rooted in databases, which consolidate data gathered over decades from many sources to create Finland’s most comprehensive historical business and credit information database and the country’s only personal credit information database. Customers include financial institutions, telecom operators, consumer credit companies, wholesalers, retailers and debt collection agencies.

Asiakastieto’s growth strategy is based on leveraging its leading market position, its well established customer relationships, its resilient cash flow characteristics and its experienced management team to drive growth both in its core risk management and credit information services market, as well as in adjacent market segments. Key value creation initiatives include the improvement of sales force effectiveness and on-going investment in new product development. In addition, Asiakastieto’s new CEO, who replaced the retiring CEO in January 2012, is focusing on reorganizing the Business Information, Consumer Information and Consumer Management areas. A dedicated team is looking after the top seven accounts to facilitate close customer interaction in an effort to better understand customers' needs and thereby improve future new services and product solutions.

Asiakastieto is also working to counter recent changes to market conditions, such as price pressure from increased competition. It is also working to improve competitiveness by increasing the proportion of value-added products, rather than relying on pure transactional data to drive sustained sales growth. The acquisition closed in May 2008.

Randall-Reilly is a leading diversified business-to-business media and data company focused on the trucking, infrastructure-oriented construction and industrial end markets in the United States. Its products include B2B trade publications - primarily qualified circulation titles that rank first or second in their sector - live events and trade shows, recruitment products and indoor advertising displays. In addition, its Equipment Data Associates (EDA) business is an industry-leading collector and aggregator of industrial equipment purchase data that provides subscription-based sales lead generation and market intelligence products to the industrial equipment markets.

Randall-Reilly's end markets continue to show signs of economic recovery as trucking and infrastructure related construction remain a central and necessary component to the US economy. Additionally, modest growth in advertising and marketing are expected to be seen in calendar year 2013. There has been an increase in truck orders and freight, as well as significant driver turnover and an aging demographic of drivers. Consequently, the primary source of growth for the company has been Randall-Reilly's truck driver recruiting division as fleets continue to advertise aggressively to hire drivers. The American Trucking Associations indicates that the industry is short approximately 25,000 drivers, a number that could quickly increase if freight picks up in calendar year 2013.

Along with the need for new truck drivers, the trucking industry is transforming overall and there is an increased need for new innovative digital talent. Randall-Reilly is therefore focused on making digital marketing services an integral part of all its products. The company continues to put significant resources into growing the data business and launching ancillary products for EDA that provide enhanced equipment ownership and risk data. The company expects to monetize these efforts in calendar year 2013. The acquisition closed in February 2008.

Berlin Packaging is a leading supplier of rigid packaging in the United States. From strategic locations throughout the US, the company supplies plastic, glass and metal containers, closures and dispensing systems to customers in the food and beverage, personal care, and healthcare end markets. Through its design division, Studio 111, Berlin also provides value-added services such as packaging design and consulting services, acting as a 'one-stop-shop' for all the packaging requirements of many customers. Berlin has a leading market position, strong management team, compelling value proposition to customers, growth-oriented culture and attractive industry structure. Sales levels continue to gain momentum as Berlin continues to realize benefits from its prospecting efforts. The company benefits from limited customer, product, and geographic concentration, attractive free cash flow characteristics and 'best-in-class' operations and infrastructure. The company also continues to gain market share within its existing markets through new customer wins and increased penetration of existing customers, by growing the presence of the company's catalog business and Studio 111, as well as through add-on acquisitions.

In October 2012, Berlin completed the acquisition of US Container Corporation (USCC). This is the company's fourth strategic acquisition since 2010, and USCC will broaden the company's teams in the Los Angeles, San Francisco and Phoenix areas, add four new warehouses, and strengthen the industrial packaging portfolio.

The team continues to focus on margin improvement initiatives, tight cost controls, increasing the pipeline of new customers, pursuing add-on acquisitions and the smooth integration of its most recent investment in USCC. Berlin remains well positioned for continued strong performance through growth, both organic and through acquisition, continued margin management, sales force training, and on-going cost control. The acquisition closed in August 2007.

Icopal is the leading European manufacturer and provider of roofing products and installation services and has 30 manufacturing sites and 85 offices throughout Europe and North America. Icopal's products are used for waterproofing, building membranes, pitched roofing and roofing accessories, and by specialized contracting services within flat roofing.

Icopal's business strategy is focused on developing and consolidating its market position in existing markets, complementing its product offering and further expanding in Eastern Europe. In addition, management is preparing for a strong rebound when demand recovers, drawing upon an institutionalized 'fill-the-gap' planning process that has identified more than 200 growth initiatives. The company has dedicated specific resources to ensure a go-to market approach and focus on accelerating sales of products with the most potential. These include setting up an in-house manufacturing capacity for breather membranes and the continued development of green waterproofing solutions, ultimately ensuring continued above-market performance.

Over the past three years, management has made four acquisitions including a leading Austrian-Hungarian bitumen membrane producer, Villas, and a German high-end synthetic player, Wolfin, which have strengthened Icopal's position within the European membrane industry. Management priorities for the future include improving margins through the Procurement Business Intelligence System (IProBis), which is a fully automated module that analyzes spending levels across all geographies and based on that, facilitates real time pricing guidance through the system. In addition, Icopal is looking to expand into markets beyond Europe such as Brazil, Turkey and southeast Europe to drive growth. The acquisition closed in July 2007.

Armacell is a major supplier of engineered foams and expanded rubber products used in construction, industrial, sports, leisure and recreation, automotive, packaging and a wide range of custom applications. It is the undisputed global market leader in elastomeric insulation foams. Based in Germany, it operates 19 manufacturing facilities in 13 countries and serves 30 countries across the world.

Armacell has undergone a significant business transformation over the past 5 years, forming two divisions, Global Insulation and Technical Foam, and adding significant talent, including a new top management team. It has also rationalized its manufacturing footprint and product portfolio in order to reposition itself towards fast growing geographies and stable end-markets.

While industry activity levels in Armacell's traditional markets generally showed improvements in the past two years, clear divergences were seen by segment and geography. Management implemented a number of sales initiatives, both geographic and product focused. Armacell has also increased its penetration of emerging markets, including new capacity in India and a joint venture with Zamil Industrial in Saudi Arabia. During the past 12 months, Armacell has seen above-market growth with these initiatives, supported by R&D and product development in markets such as industrial, marine and petrochemical. The acquisition closed in January 2007.

IPH Group, the holding company of Anfidis Networks and Orexad, which was formed through the merger of Orefi and AD Industrie, is the largest distributor of industrial supplies in France. IPH Group has a presence in all regions of France, and has 250 branches across Europe, including 54 acquired in 2007 from Anjac, the third largest competitor in the French market.

Despite the uncertainties surrounding the European macro-environment, the impact on the core business has been relatively negligible to date. IPH Group continues to leverage its market leading position and best-in-class key account organization by taking share from competitors and winning large contracts. In February 2012, the company acquired Zitec Industrietechnik and Wilhelm Jung, both German leading players in power transmission, positioning IPH among the top three distributors in Germany, Europe's largest market for industrial supply. The company now generates over a third of its EBITDA outside of France. Management is dedicating significant resources to ensure a smooth integration of the acquisitions, transferring best practices and capturing synergies. The acquisition closed in June 2006.

Autodistribution is the leading independent distributor of auto and truck spare parts in France, and is the largest independent auto parts distributor in Europe. The company consists of 116 distributors, more than 350 suppliers, more than 160,000 square meters of storage space and more than 1,000,000 parts distributed by 509 sales outlets.

Autodistribution has experienced softness in some of its end markets, which has put pressure on volumes. This has been mitigated by improved pricing and a positive sales mix effect. Management continues to focus on implementing a profit improvement plan, defined in early 2010, targeting €30 million of cumulative improvements by the end of calendar 2013.

Current performance is on track. Initiatives include rationalization of the regional organization, turnaround of the loss making subsidiaries, productivity improvements, reengineering the cost structure, improvements in transportation and logistics costs, and gross margin increases. The management team continues to monitor its international presence and as sales and margins have declined in some geographies, the company is in the process of disposing of one of its international operations. The acquisition closed in March 2006.

Polyconcept is the world's largest supplier of promotional products, created by the combination of Polyconcept, Europe's leading generalist supplier of wearable and non-wearable promotional products, and Global Promo Group Inc., the number two non-wearable promotional product supplier in the US.

In April 2011, Polyconcept North America acquired Trimark Sportswear Group a leading Canadian apparel supplier, marking the fourth acquisition since Polyconcept's acquisition in 2005 and its first move into the promotional apparel category. With the addition of Trimark, Polyconcept became Canada's largest supplier of both apparel and hard promotional goods under four industry leading brands (Leed's, Bullet Line, JournalBooks, and Trimark).

Performance continues to vary by geography. The European slowdown was more significant than anticipated due to the recession which caused a significant drop in demand, while the performance in the US has been protected by a better sales mix on higher margin products. Additionally, new initiatives in North America have gained traction with room for improvement going forward. The launch of Trimark Powered by Leed's, a US apparel initiative, in July 2012 ramped up sales towards the end of calendar year 2012. In Europe, management conducted a European strategic review of the business and we expect to see positive impact from these initiatives beginning in calendar year 2013. The company has successfully completed the succession of a new CEO and CFO. As the company becomes increasingly North American centric, CEO Michael Bernstein has relocated to new headquarters in Pittsburgh, PA. Overall, Polyconcept benefits from leading market positions in Europe and the US and a strong liquidity position. The acquisition closed in June 2005.

SourceMedia is a leading business-to-business provider of multimedia information to professionals in the banking, financial services and related technology markets. SourceMedia has a distinguished portfolio of products, including some of the longest-running titles in American business publishing, such as American Banker, The Bond Buyer, and Financial Planning. SourceMedia also offers subscription data, software tools, directories, conferences and trade shows.

In November 2004, Investcorp acquired Accuity along with SourceMedia from The Thomson Corporation and subsequently spun off Accuity to become a stand-alone business. In November 2011, Investcorp agreed to sell Accuity to Reed Elsevier for an enterprise value of $530 million. As part of this transaction, SourceMedia was able to sever all remaining ties with Accuity and refinance the company's existing credit facility while maintaining appropriate financial flexibility. The corporate logo was also rebranded to symbolize SourceMedia's emergence as a diversified, digitally-focused media company.

Although conditions in SourceMedia's financial services end markets remain challenging, the dynamism and importance of these markets remain relevant and we hope to see a reversal in these trends in calendar year 2013. The company has continued to shift from traditional advertising-based print publishing to a community and content-focused enterprise that will deliver products to its customers in both print and electronic formats. While SourceMedia's market position and brand awareness remain strong, the company will continue to transition to and accelerate the subscription side of the business and prioritize digital product development. SourceMedia's print market share has remained stable and the company is on schedule to achieve its 'cross-over' point this year – when digital revenues will be greater than print revenues. The acquisition closed in November 2004.

TelePacific is a facility based Competitive Local Exchange Carrier (CLEC) providing telecommunications services to small and medium sized businesses in California, Nevada and Texas in the US. TelePacific is the leading CLEC and the largest alternative telecommunications provider to AT&T and Verizon in its market.

General macro business conditions in California and Nevada continue to be soft but have recently stabilized. Competitive pressures in TelePacific's markets remain high with cable companies aggressively seeking customers, forcing telecom providers to continue to expand their product offerings.

In order to meet customer demand while expanding its end-markets, TelePacific continues to transform and shift with the growing trend for high bandwidth technologies including Ethernet-over-Copper (EoC) and fixed wireless capabilities.

These platforms have substantially improved the company's competiveness and should enable the business to leverage its channels and grow sales.

In calendar 2011, TelePacific closed on three add-on acquisitions, broadening its product options, building scale and reducing its cost structure. Through the most recent acquisition of TelWest, the company plans to accelerate growth in Texas and believes this geographic market has very attractive profitability characteristics. TelePacific also reduced its industry-leading customer churn rates through superior customer care initiatives and maintained strong profit margins. Overall, the investments made in EoC, new data centers and hosted VoIP over the past couple of years are expected to drive margin expansion in calendar 2013 and beyond. TelePacific's outlook remains positive as it has positioned itself to compete and succeed in its market. The acquisition closed in April 2000.